

# GENERAL AGREEMENT ON

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## TARIFFS AND TRADE

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COUNCIL

2-3 July 1991

TRADE POLICY REVIEW MECHANISM  
THAILAND  
MINUTES OF MEETING

Chairman: Mr. Lars Anell (Sweden)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. At this special Council meeting, we shall resume the programme of trade policy reviews which began in December 1989, pursuant to the Decision by the CONTRACTING PARTIES of 12 April 1989, contained in document L/6490. Today and tomorrow morning, we have the review of the trade policies and practices of Thailand on the agenda.

2. You will recall that the purpose of the trade policy review mechanism is "to contribute to improved adherence by all contracting parties to GATT rules, disciplines and commitments, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of contracting parties. Accordingly, the review mechanism will enable the regular collective appreciation and evaluation by the CONTRACTING PARTIES of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system" (L/6490).

3. According to the Decision taken on 12 April 1989, the Council is to base its work on two reports: a report by the Government of the party under review and a report by the Secretariat, drawn up on its own responsibility. These documents on Thailand are now before the Council (C/RM/G/13, C/RM/S/13A and C/RM/S/13B).

4. The report by the Government of Thailand follows the Outline Format for Country Reports agreed by the Council in July 1989 (L/6552).

5. In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat has sought clarification from Thailand on its trade policies and practices, as far as the factual information contained in the six factual Chapters of the Secretariat report is concerned.

6. At the last set of TPR meetings, covering the European Communities, Hungary and Indonesia, I reminded the Council that the Decision establishing the TPRM (L/6490) requires contracting parties which have been reviewed to provide annual statistical up-dates. I am pleased to say that so far we have received one such statistical update, from Australia. This has been circulated in document C/RM/G/1/Add.2. I encourage other contracting parties which were reviewed in 1989 and 1990 to give consideration to the updates which they should prepare. The Secretariat is at the disposal of delegations for advice in this connections.

7. Let me now come to the procedures for today's meeting. The arrangements are set out in document C/RM/7. In this context, I should like to draw your particular attention to paragraph 6 of this document,

urging that minor points, in particular purely factual corrections to the reports before the Council, should be communicated to the Secretariat in writing after the meeting so that our discussion in the Council today can focus on major issues. I understand that, before publication, these two reports now before the Council may have to be revised with due consideration to any such comment.

8. Some contracting parties have given advance notice in writing of points they wish to raise at this meeting. These communications have been passed on to the Thai delegation in Geneva. Of course, these communications will not in any way limit the scope of discussions at this meeting.

9. Once again I am pleased that Ambassador Calovski and Mr. van de Locht have been willing to assist, in their personal capacities, the Council in its deliberations.<sup>1</sup>

10. At our last meeting, I suggested that these special meetings of the Council could perhaps be somewhat more structured than in the past. I had proposed a number of themes which emerged from a reading of the documents then before the Council. In these meetings, I should like to pursue the idea of a more structured discussion, in order to promote more debate within the Council.

11. In reviewing the trade policies and practices of Thailand, it seems to me that three main themes might be developed:

- (1) General objectives in relation to trade policies; questions relating to bilateral, regional and multilateral trade liberalization, including relations between Thailand's membership of ASEAN and the Cairns Group and its objectives in the Uruguay Round; and problems faced by Thailand's exports on world markets;
- (2) Use of major policy instruments, including customs and tariff matters, import licensing, investment promotion and other major policy measures as State and private trading monopolies, government procurement procedures, export licensing, and price controls;

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<sup>1</sup>In the unavoidable absence of Ambassador Calovski, his statements were read for him by Ms. Olga Lazic-Djerdj of the Mission of Yugoslavia.

- (3) Sectoral aspects of Thailand's trade policies and practices, including the policy approaches to the development of infant industries and national resource-related products.

12. On this basis, the Council could express its views and make its appreciation regarding Thailand's trade policies and practices.

II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF THAILAND

13. On behalf of the Thai Government, we welcome the opportunity given to us at this Special Council Meeting to review our trade policy for the first time.

14. Allow me first of all to thank the Secretariat for the time and work undertaken to put together a well prepared, informative report, which provides a good review of Thailand's trade policy objectives and practices, I will not repeat what is already contained in the review submitted by Thailand and the Secretariat but will highlight some pertinent facts, recent developments and points on which our interpretation differs from that of the Secretariat.

15. We recognise the increasing significance of interdependent trade policies and practices and fully support the introduction of a trade policy review mechanism as an important tool towards strengthening the GATT system. The TPRM enables us to examine closely our own and other contracting parties' trade policies and practices. At the same time, it provides an opportunity for other countries to have a better understanding of our trade policy. This, in our view, could serve to lessen friction and misunderstanding that now exist in international trade relations.

16. Before I turn to the issue on our agenda, I should also like to express appreciation to the Chairman and the Discussants who have undertaken the task of leading the discussion today.

17. In the 1960s, Thailand's exports consisted of a few agricultural commodities and minerals, namely, rice, rubber and tin ore. Following the implementation of the export oriented policy from the mid-1970s onwards, there has been an expansion and diversification of Thai exports. Thailand's economic performance has become increasingly dependent on international trade.

18. Realizing that international trade relations should be based on a multilateral legal framework, Thailand acceded to the GATT in 1982. The GATT, as an embodiment of the free and open trading system, has since then become a central foundation of our economic reform.

19. As our trade grows, we have been more and more exposed to the realities of competition in world trade. We have found that nations, especially the bigger ones, do not refrain from using all measures to protect their domestic industries and to increase their competitive position. Our exports have been increasingly subject to trade harassment, whether in the form of anti-dumping and countervailing investigations,

voluntary export restraints, or the threat of unilateral action under domestic legislation of some trading partners.

20. We have also found that our exports, especially agricultural exports, are being faced with unfair competition in the world markets from developed countries who subsidize their production and export to the tune of hundreds of billion dollars a year. This has led to severe distortion and economic loss especially for countries whose economic viability depends to a large extent on earnings from agriculture exports.

21. With these problems in international trade, we have come to realise that for a small trading nation like Thailand, the only viable long-term alternative is to help build up a strong, open and equitable multilateral trading system such as the one embodied in the GATT.

22. We have therefore participated actively and constructively in the Uruguay Round of Multilateral Trade Negotiations with the objective of contributing to the improvement of the multilateral trading system, believing that it would bring about further liberalization and expansion of world trade and prevent as far as possible situations where stronger trading nations imposed unilateral and bilateral pressure on smaller counterparts.

23. It is our hope that a successful Uruguay Round must be one which brings about equitable benefits to all participants and one which puts an effective end to unilateralism and bilateral pressures. Towards this and we are prepared to make contributions which are consistent with our trade, financial and developmental needs.

24. Now let me turn to the development of the Thai economy. The Thai economy has undergone dramatic structural changes over the past two decades. The foundations for these changes were laid by a series of long-term national economic and social development plans, which started in 1961.

25. In the 1960s, agriculture was the leading sector, producing 31 per cent of the GDP while manufacturing produced only 14.2 per cent. Primary exports, namely rice, rubber, teak and tin ore, accounted for more than three-quarters of the total export value. The major emphasis was on import substitution.

26. However, from the mid-1970s onward, the Government's policy shifted towards the promotion of the export-oriented industries and manufacturing began to overtake agriculture as the major contributor to the GDP. In 1990, the share of manufacturing in GDP rose to 26 per cent while that of agriculture declined to 12.4 per cent. In terms of export value,

manufactured products' share in total exports increased to 62.2 per cent whereas that of agriculture dropped to 18.6 per cent.

27. Nevertheless, the two sectors are still closely linked as agro-industry products account for one-third of manufactured output. Major exports now cover products such as garment, computers and parts, gems and jewellery, footwear, integrated circuits and canned seafood.

28. Since 1987, the Thai economy has achieved an impressive rate of economic expansion, with an average growth rate of about 10 per cent per annum. The rapid growth has been chiefly a result of a surge of exports and investment, and expansion and diversification of industrial capacity and the threefold increase in income from tourism.

29. Although the rapid economic expansion has been widely acclaimed it has also created the following problems.

30. First, the overheated economy has put pressure on domestic inflation and worsened the current account deficit which has resulted from excessive imports and domestic spending. This was compounded by the negative effect from the Gulf crisis.

31. Second, although exports have climbed spectacularly over the years they are invariably outpaced by the growth in imports, particularly imports of capital machinery and industrial inputs, resulting in an ever-widening trade deficit.

32. Third, the emerging inadequacy of infrastructure, particularly in roads, ports, waste supply, electric power and telecommunication facilities, has begun to make itself felt more acutely.

33. Fourth, the shortage of qualified personnel, particularly engineers and technicians, has reached a critical stage.

34. Fifth, the problems of income distribution and dispersion of economic prosperity have not been effectively solved to the benefit of the rural poor.

35. Sixth, the traffic congestion in Bangkok and suburban areas has caused pollution, and severe economic wastes.

36. These problems have to be tackled in a comprehensive manner. Some of the problems call for a structural reform while others need only a slight adjustment of the present system. These reforms and adjustments have to be carried out in a cautious manner so that they will not disrupt the ongoing process of economic development.

37. With this in mind the Government has taken steps in progressive reform.

38. Although the present Government is only an interim one pending the promulgation of a new constitution and the holding of general elections later this year, it has assumed responsibility and obligation in laying down a framework and foundation for the future.

39. In his April statement on Government policy delivered to the National Legislative Assembly, the Prime Minister stated that the first priority of his Government was to put in place a Government system that is transparent, accountable, responsive and minimizing the discretionary power of bureaucrats.

40. This administration intends to change the Government's fundamental rôle from "regulator and controller" to that of "supporter, promoter and facilitator" of development under the goal of more liberalized, freer trade in a fair and open competitive system. To reach this goal, streamlining of customs procedures and tax structures, improvement and reduction of tariff and fee rates, liberalization of the monetary system, liberalization of the export-import régime, revision of laws and regulations and elimination of bureaucratic red tape would be undertaken on an urgent basis.

41. The Government's policy will be implemented in accordance with the national economic and social development plan. The seventh plan, which will be implemented during the next five years, has laid down an action plan for Thailand's participation in the multilateral trading system and strengthening the competitiveness of the Thai economy through the multilateral system.

42. Moreover, the Government aims to improve the quality of life of the poor and the underprivileged, ensure fairer distribution of income and development opportunities, resolve the infrastructure bottlenecks, upgrade workers' skills and improve the technical knowledge base.

43. Finally, the Government accepts the responsibility to conserve the environment, use natural resources effectively, fight worsening pollution and continue sound macro economic policies.

44. Having touched on the Government's policies in general, I would like to draw your attention to the decontrol and deregulation taken in specific sectors.

45. The Government has no intention to select any specific sector for promotion or protection. To pursue the goal of a more liberalized trade

and fair and open competition it is now taking steps to deregulate and eliminate specific protective measures.

46. The present import licensing régime has been imposed mostly to protect public morals, human, animal or plant life or health, to conserve exhaustible natural resources, to comply with intergovernmental commodity agreements etc. There are only a few products on which import licensing is required in order to protect infant industries. However, as part of the Government's strive towards trade liberalization and creation of a competitive environment, the Ministry of Commerce has been reviewing the import régime. This resulted in unilateral liberalization of more than 10 products in 1990.

47. For example, in the automotive industry, which is the most protected industry, the Government has removed the import restraint on engines and completely built cars. The import duty for automobile industry is being reviewed and is expected to be lowered in accordance with the Government's policy to eliminate protection in specific sectors, create competitive environment and enhance industrial efficiency.

48. Regarding controls on expansion and establishment of new factories, the main objectives of existing regulations are for environmental purposes, and to ensure efficient use of limited financial, human and natural resources etc. The Government has simplified the procedures and reduced bureaucratic red tape in issuing licences. Regulations governing expansion and establishment of new factories would be turned into guidelines for industries, to ensure that their expansion or establishment would not cause environmental degradation and natural resource depletion.

49. On environmental issues, the Government will implement programmes to clean up factory pollution and waste, and provide incentives for factories to move into industrial estates equipped with waste and pollution treatment facilities. The rôle of the Government will become monitoring instead of controlling.

50. With respect to the monetary sector, the second round of foreign exchange deregulation has taken effect since April 1, a follow-up to the successful foreign exchange liberalization undertaken in May last year simultaneously with Thailand's compliance with Article 8 of the International Monetary Fund.

51. It has deepened the relaxation of the controls, freed up the financial system and facilitated the integration of the Thai economy into wider international environment. It allows the public to buy, sell and increase limit of foreign exchange with less documentation and procedures. Commercial banks will be delegated more authority to approve a wider range

of exchange transactions. There will be no restrictions on capital investment and foreign borrowing, repatriation of investment funds, dividends and profits as well as loan repayments and interest payments thereon, net of all taxes, will be made freely.

52. The deregulation will help increase the expansion of global trade and international investment opportunities.

53. Even though the dominance of the manufacturing sector has induced the reallocation of labour away from the agricultural sector, more than half of the Thai population, of over 30 million in number, are still farmers whose livelihood remains subject to the uncertainty of weather conditions and world prices.

54. Thai agricultural policies are mainly geared towards three objectives: first, to maintain economic growth and stability through expansion of agricultural outputs, per capita income, and value as well as volume of agricultural exports; second, to promote a more equitable distribution of income to farmers and agricultural workers; and third, to improve the quality of life and environment. These three objectives have been maintained since the commencement of the sixth National Economic and Social Development Plan in 1987.

55. Thailand tries to conduct its agricultural policy with minimal intervention from the Government. However as a result of world trade distortion in the agricultural sector caused by protective policies and over-production as well as export subsidy programmes of developed countries, the Thai Government is compelled to intervene in the domestic market as needs arise in order to stabilize income in the agricultural sector.

56. However, it is our firm conviction that the problem has to be urgently solved through multilateral disciplines by integrating agriculture into GATT system. This is the underlying objective for our efforts towards reaching a meaningful agreement in agriculture in the framework of the Uruguay Round Negotiations.

57. Turning to investment policy, it is important to note that Thailand conducts its investment policy with the aim of supporting the country's social and economic development objective. It is therefore inevitable that the Government has to extend incentives and promotional privileges to some industries in order to support the decentralization of industries to provincial areas where basic service investment lags behind metropolitan areas.

58. Concerning foreign investment policy, the Government has exercised an open-door policy encouraging external investors. To ensure the security of a foreign investment project, the Government offers a guarantee against nationalization and competition from new Government enterprises.

59. Having elaborated on recent developments thus far, I would like to conclude by highlighting some prospective programmes in support of trade liberalization.

50. The Government is determined to continue liberalization efforts in encouraging fair competition both for domestic and international trade, with a view to enhancing the country's efficiency and competitiveness in international markets.

61. In a step to liberalize trade and promote free enterprise, prospective programmes are foreseen in several areas, for example, a plan to revise the Price Fixing and Anti-Monopoly Act in order to encourage competition and to regulate only in case of monopoly, and restrictive business practices and unfair trade practices.

62. The import and export régime is placed under review as a priority matter as has been mentioned earlier.

63. In the fiscal domain, the Government will pursue the effort to introduce the value-added tax to replace the present business tax by early next year. The replacement will improve the efficiency of the tax collection and help plug loopholes which allow tax evasion and avoidance. It will also reduce redundant taxation in businesses and industries to help boost economic competitiveness. The implementation of the VAT system will remove the discriminatory effect of business tax between domestic and imported goods. By reducing redundancy for taxation in businesses and industries, the Government would be able to remove the present duty rebate scheme.

64. The Government is presently considering a proposal to streamline the country's tariff structure. This involves a replacement of the currently applied thirty-six different rates with six tariff rates. The restructuring would facilitate better transparency of the Thai Tariff system.

65. In the investment sector, the Government also plans to streamline investment regulations and procedures to make them clearer and more flexible so investment projects can be implemented quickly.

66. It will maintain the policies of spreading industries into rural areas, encouraging technology transfer and development, promoting export-oriented and supporting environmental protecting projects.

67. From this review, it is evident that Thailand has put full confidence in the multilateral trading system. We will continue to give full support to and co-operate with contracting parties to establish a fair and equitable trade rule for all nations.

68. We have found that in the process of reviewing trade policy of contracting parties, we are able to obtain more transparency in international trade. This will help us beware of our weak points which would in turn help us in improving our efficiency and competitiveness in international trade.

69. The TPRM process is therefore essential in reducing frictions and promoting the smooth operation of international trade.

### III. GENERAL OBJECTIVES OF TRADE POLICY

#### (1) Statement by the first discussant

70. Allow me to begin by thanking the Thai Government and the GATT Secretariat for the excellent reports which, together with the introductory remarks and the statement of His Excellency the Ambassador of Thailand provide us with a very useful and comprehensive basis for the review of the trade policy of Thailand in accordance with the Council decision of 13 April 1989. I was really impressed by what our colleague the Ambassador of Thailand has underlined in concluding his statement. While reviewing the Trade Policy of Thailand we have to see what are, and what are not the objectives of this review. We have mentioned what the objectives are, namely, that the review is not "intended to serve as a basis for the enforcement of special GATT obligations or for dispute settlement procedures, or to impose new policy commitments on contracting parties". Another matter which I would like to stress, right at the beginning, is that we are asked to have the review "against the background of the wider economic and developmental needs, policies and objectives of the contracting party concerned, as well as of its external environment", I repeat, as well as of its external environment. I am underlining this because one of the most important findings one will come across, after studying the reports, is that the impact of Thailand's trade policies and measures on the multilateral trading system, as a matter of fact, is very small and commensurate with its share in the world merchandise imports of 0.8 per cent and in exports of 0.6 per cent in 1989. In the same year, Thailand participated in world commercial services exports and imports by 1 per cent and 0.7 per cent respectively. But, on the other side, the impact of the multilateral trading system and trade policies and measures of Thailand's major partners is huge on Thailand's development and trade. The present situation in international trade relations raises serious problems for Thai development and foreign trade. This is why Thailand so actively participates in the international efforts for an improved and strengthened multilateral trading system.

71. In its very complex international relations, including the political problems in the region that influence the situation in the country, Thailand has successfully developed its economy, significantly contributing to the international cooperation in the region and broader. Even today Thailand has to pay attention to many circumstances and foreign policy considerations. Thailand today is an attractive place for foreign investments and a country that is increasingly dependent on international trade. Since the mid-1980s Thailand was among the fastest growing economies in the world. The ratio of exports of goods and services in GNP rose from 25.5 per cent to 39.5 per cent in the last decade. Something that catches our eye immediately on studying the report is that Thai policy

is interwoven with efforts to have Thailand develop but not on the account of others, which is one of the main principles of international cooperation.

72. The remarkable results Thailand has achieved were not accomplished easily. There were problems and difficulties that characterize the development of many developing countries. I think the results have been reached on the basis of the implementation of a wise, recently more outward looking policy inspired by the wish for a fast development. I am convinced that, in the period to come, Thailand shall have even more success in its economic development.

73. The Government of Thailand favours a strong multilateral trading system and it seeks greater global trade liberalization. The experience of the limits of an inward-looking approach towards trade and development policy and recognition of the potential of the world economy in providing markets, inputs, investment and technology, as well as incentives for increased efficiency of domestic production contributed to the Government's orientation towards more open economy and the liberalization of the foreign trade régime. As a result Thailand witnessed a strong trade and economic growth, became an attractive country for direct foreign investment, and has developed itself into a dynamic export-import economy. The value of overall trade in 1981 was about US\$10.2 billion. This year it is expected to reach about US\$64.4 billion. Exports in 1981 were US\$4.2 billion - this year they are expected to be about US\$26 billion. Imports in 1981 were about US\$6 billion and this year they are expected to be around US\$38 billion. These are really impressive figures, most impressive results. It should be, however, pointed out that the Government would favour a more diversified structure of the Thai foreign trade.

74. I was struck by the significant structural changes in Thailand's exports and the fact that the share of manufactures has reached more than 62 per cent in 1990, while agricultural products' share dropped from about 50 per cent in 1980 to 18.6 per cent in 1989. Are there other reasons besides Governmental policies of production and export diversification that have contributed to such changes? In this respect I would also like to ask whether Thailand envisages a further decline of the share of agriculture in overall exports, or rather structural changes within the industrial exports?

75. Thailand would like to see the problems encountered in its major export markets, particularly underlined on pages 27, 28 and 29 of the Thai report, solved properly and as soon as possible. Trade relations with the United States, European Community and Japan are of particular importance for Thailand. I think it would be useful if Thailand could elaborate a little further the effects of difficulties faced in the markets of major

partners on its exports, including the effects of the current recession in the main markets and also because of the Gulf crisis and the results of this crisis. I have noted that specific problems concern Thailand's canned seafood and the question of intellectual property rights.

76. Thailand acceded to the GATT in 1982. It is not a signatory of any of the Tokyo Round Codes. It has the status of observer in the Arrangement regarding Bovine Meat and in the Agreements on Technical Barriers, Subsidies and Countervailing Duties, Anti-Dumping, Customs Valuation, Government Procurement and Import licensing Procedures. It would be useful to hear from the representative of Thailand what are the problems the Government has to accede to at least to some of the Codes and what are its intentions in this respect?.

77. As we all know, individually and as a member of the Cairns Group and ASEAN countries, Thailand is taking an active and positive part in the in the Uruguay Round.

(2) Statement by the second discussant

78. As already outlined by my neighbour, one cannot fail to be impressed by the economic performance of Thailand over the last two decades. One also cannot fail to be impressed by the introduction of the Thai ambassador, in which he already answered part of the questions that arise out of the reports of both the Secretariat and the Thai Government. I think that it is really an example of, or an expression of, the dynamism of the Thai economy and its participants. Thailand achieved a rather smooth transition from a import substitution policy towards an outward looking policy halfway through the seventies, and maintained a rather high level of economic growth. The second oil crisis in the beginning of the eighties slowed that down a bit, but the macro economic policy mix with which the Thai Government responded was highly successful. An important part of that mix was formed by more liberal trade policies and a simplification of the trade régime, supported by a realistic exchange rate policy. As the Thai ambassador just said, GATT forms the basis of economic reform in Thailand. However, the legal foundation of the trade policies seems to stay a bit behind vis-à-vis actual policies.

79. As a consequence, many aspects of trade policy formulation, implementation and the instruments themselves are not transparent. In both the import régime and the investment régime there is room for a considerable amount of discretion. Linked to this issue it would be interesting to hear from the Thai authorities which criteria they implement in the privatization of several State enterprises; and I had also noted down the question of whether a competition law exists, but this is now, I think already answered by the Thai ambassador in saying that there is now a

project underway for a competition law. Given the fact that Thailand's own further export growth requires a more stable and liberal trading environment, my neighbour has rightly pointed out that the Thai economy is more dependent on the world environment than the world environment on the Thai economy.

80. One could ask oneself the question whether, in the framework of a package of a successful conclusion of the Uruguay Round, the Thai Government would be able to overcome domestic resistance to further liberalization, and also in diminishing the level of discretion.

81. It is well known that Thailand, as a member of the ASEAN and as a member of the Cairns group, is actively looking for strengthening of the multilateral system. In this respect it would be interesting to hear from the Thai authorities and from other participants how they see the relationship between the various regional and bilateral liberalization initiatives and the GATT system.

82. Linked to this point, it was for me striking to see that the share of ASEAN trade in Thailand's overall trade is relatively small. Is there still an untapped potential for great trade growth from which the whole region could benefit?

83. A last point under the general heading that I would want to embark on is the fact that the reports signal that in Thailand, in the areas of skills, infrastructure and environment, there occur bottlenecks for further growth. The Thai ambassador already indicated, I think, six problem areas under which these could be dealt with and he also already gave the direction in which the Thai authorities are looking for solutions. It would be interesting to hear, amongst other things, how the Thai authorities see the relationships between these issues and trade and investment issues.

(3) Statements and questions by the members of the Council

84. Council members complimented Thailand and the GATT Secretariat for the quality and coverage of the reports, which constituted a good basis for the review. They thanked the two discussants for their excellent introductions to the debate.

85. The representative of Japan noted his country's excellent and very close relationship with Thailand. Their bilateral trade had expanded considerably. Japan had become the second largest market for Thai exports. He mentioned the Thai Government's White Paper on the restructuring of economic relations between Thailand and Japan which encompassed their

overall, bilateral economic relations including trade, investment and technical cooperation. He looked forward to further development of free trade between Japan and Thailand.

86. Thailand had achieved stable and rapid economic growth following the principles of a free market economy. The steady development of domestic manufacturing, a substantial real effective devaluation, and an export promotion policy involving investments had led to a sharp rise in foreign investment inflows. This, in turn, had accelerated the increase in exports of manufactured goods. The process of reform of tariff and non-tariff barriers has been accompanied by a rapid increase in imports of capital goods, raw materials and intermediate products. Thailand's liberalization would help the country deal better with its balance-of-payments problems in the future. In order to achieve balanced economic development, the Thai Government should address issues such as improvement of infrastructure, training of skilled workers, improvement of income distribution and avoiding regional concentration of economic development.

87. The representative of India emphasized the need to focus on the wider economic and developmental environment surrounding Thailand's economic and trade policies. The path of liberalization adopted by Thailand during the last two decades, and particularly over the last two years, had shown remarkable results in economic growth, increase in exports, greater inflow of foreign investment and technology, and improvement in the balance-of-payments position. Although the share of manufactures in Thailand's exports had increased dramatically over the last decade, exports of agricultural products - where considerable trade distortions still persisted - still accounted for almost one third of total export earnings. For liberalization measures to have a lasting impact on the Thai economy it was essential that world trade in agriculture be conducted on the basis of GATT rules and principles. Textiles and clothing, trade in which was also outside the normal GATT rules, accounted for a further 17 per cent of Thailand's merchandise exports. It was, in his view, absolutely necessary to bring this sector fully under GATT rules in the Uruguay Round.

88. Liberalization by Thailand had significantly increased in imports of raw materials, intermediate goods, and machinery. The process of liberalization had not yet extended to finished products and consumer goods, which were still protected through high tariffs, tariff escalation and import licensing. Such measures in non-priority areas were understandable, given Thailand's stage of development of the Thai authorities to continue the rationalization of such policies. The international community should give all necessary assistance and encouragement to Thailand. Significant and early results in the Uruguay Negotiations, particularly in the areas of agriculture, textiles and clothing would go a long way in this direction.

89. The representative of Australia said that the review gave a clear picture of the substantial economic transformation in Thailand, a fellow Cairns Group member which had emerged as an important trading entity in the Asia/Pacific region. Thailand had achieved this transformation in a short period of time, following similar economic policies to other successful high growth Asian economies, based on identification of key industries, a favourable exchange rate, encouraging foreign investment, and providing incentives to export-oriented industries.

90. Thailand had developed a dynamic manufacturing sector in a relatively short period of time with the help of favourable world economic conditions since the mid-1980s, and liberalizing measures such as the opening of the Thai market to foreign investment, reducing tariffs, and strong Government intervention.

91. Thailand's trade policies were generally in line with, and upheld, GATT disciplines. A strong supporter of the multilateral system, Thailand had shown a high level of commitment to the most-favoured-nation principle. Its policies were shifting from import substitution to being more outward looking. The promotion of export industries led to an associated increase in import demand and reductions in internal restrictions to ease access for certain goods.

92. The Australian representative was encouraged that Thailand proposed further reform or liberalization in a number of areas, including replacement of non-automatic licensing with tariffs, increasing tariff bindings, rationalizing tariff rates, and replacing the business tax with a more GATT-consistent value added tax.

93. The representative of the United States said that Thailand had liberalized its economy dramatically over the past decade, following a classic strategy for sound economic health: fiscal and monetary discipline, limited public external borrowing, move to a more flexible exchange rate, increased access to imported inputs, and liberalized foreign investment. Reducing its earlier anti-trade bias, Thailand had sought the potential advantages of integrating with the world economy in terms of export markets, inputs, investment and technology.

94. Among the fastest growing economies since the mid-1980s, Thailand's growth rates during this period were closely tied with its ability to take advantage of foreign investment and foreign markets for exports. A strong multilateral system, based on the framework of the GATT, was another factor in Thailand's success, and helped Thailand resist unilateral and bilateral pressures by large trading partners. Noting that the United States was Thailand's largest export market, he drew attention to the need for Thailand to increase its support for the system that had so greatly

benefited its development. Thailand was now in a position to offer greater trading opportunities in return, and to increase its participation in the work of the GATT.

95. More items were subject to import licensing today than in 1982, when Thailand joined the GATT. He encouraged Thailand to eliminate its import licensing requirements. Further, Thailand should reduce its tariffs and broaden and deepen the scope of its bindings, thus providing a more stable environment imports. Future tariff liberalizations must be implemented in a more balanced fashion among sectors, including agriculture. Thailand should join the Tokyo Round Codes, particularly those dealing with customs valuation, licensing, and standards. Adherence to these procedural disciplines would ensure that Thailand's trade policies develop within the GATT framework.

96. The representative of Canada noted the difficult circumstances faced by Thailand at the beginning of the last decade. Thailand coped with these difficulties more successfully than some others, with its outward-oriented policies and domestic macroeconomic management playing a major rôle in this process. Substantial economic growth and inflows of investment had resulted. Canada believed that a more vigorous trade liberalization effort by Thailand would be in the interest of both Thailand and its trading partners.

97. While Thailand had liberalized its investment rules, the local content schemes in the context of industries promoted by the Board of Investment were not clear. Canada similarly asked for clarification of Thailand's institutional structure for making trade policy, particularly of the process for making decisions regarding import licences, tariff treatment and Government procurement of major goods and services. Greater transparency would help Thailand achieve its commendable objectives for trade policy, including the creation of a conducive environment for trade and encouraging a competitive economic structure.

98. Recognising the importance of trade for its economy, Thailand had participated actively in the Uruguay Round negotiations. Canada particularly noted Thailand's participation, as a fellow member of the Cairns Group, in efforts to improve the functioning of the multilateral trading system for agriculture. In this context, Canada encouraged Thailand further to examine its own trade régime for agricultural products. Referring to the high degree of product concentration among Thai agricultural imports, the Canadian representative asked how Thailand reconciled its restrictive policies like high tariff rates, the use of alternate tariffs and extensive use of non-automatic licensing, with its general economic development and trade policy objectives.

99. The representative of New Zealand said that Thailand's remarkable progress demonstrated the value of the increasingly outward-looking economic policies which it had followed. New Zealand was pleased that Thailand continued to address its trade policy distortions, and welcomed Thailand's long term objective of lowering the overall level of tariffs and reducing the number of its tariff rates. Thailand deserved credit for applying most-favoured-nation tariffs to 99 per cent of its imports. This constituted valuable support for the m.f.n. principle and the GATT system. New Zealand would follow closely the wide ranging economic reform programme of the Government of Thailand. He hoped that these reforms would extend the generally positive trend of recent policy changes for the remaining protected sectors of the Thai economy.

100. Noting the close association between New Zealand and Thailand in the Cairns Group, he said that reductions in world agricultural trade distortions were needed to support Thailand's reforms. This fact should be borne in mind by contracting parties when encouraging developing country exporters, such as Thailand, to pursue extensive domestic policy and trade liberalization.

101. The representative of the European Communities said that Thailand stood out as a dynamic exporter and importer, an outward looking economy which was ready to tackle problems as they arose. The Communities had a share in Thailand's success story, holding second place both as exporter to and importer from Thailand. Like the Community, Thailand encouraged regional cooperation as a pillar of support for the multilateral trading system. He found it surprising that its ASEAN partners accounted for a relatively small portion of Thailand's trade.

102. Thailand's open approach towards direct foreign investment had been particularly positive and beneficial. He asked whether Thailand intended to broaden its direct foreign investment base to include a greater proportion of investment from, for example, the Community, and if so, how?

103. The representative of the Republic of Korea complimented Thailand on its economic success. His country maintained a close and complementary relationship with Thailand. The prospects for cooperation in the field of investment were bright. As a full dialogue partner of ASEAN, Korea had the opportunity to further promote these economic and trade relations.

104. Since joining the GATT in 1982, Thailand had progressively pursued a policy of tariff reduction, import liberalization and expansion of industrial investment. Thailand's success story, based on an open trading system, provided a model for developing countries.

105. Thailand had participated actively in the Uruguay Round. Its positive attitude could be seen from the offer to bind half of its tariffs, up from the current coverage of only 3 per cent.

106. The representative of Switzerland noted the dynamism of Thailand, the shift from import substitution to export promotion, the liberalization in the economy and the consequent striking changes which had occurred in Thailand's economic structure. On the negative side, she mentioned the low level of tariff bindings, the complications involved in calculating certain tariffs, and the complexity of policy procedures such as licensing and procurement where even the Thai authorities had difficulties in providing information. There was a need for greater transparency. Switzerland encouraged Thailand to sign the Tokyo Round Agreements.

107. Thailand intended, in pursuing liberalization efforts, to lower tariffs, bind its tariffs substantially within the Uruguay Round, reduce the rôle of State monopolies and increase that of the private sector, and make its financial and trade policies more sensitive to the international situation. These steps would help Thailand to play a greater rôle in the international scene. The representative of Switzerland asked which aspects of Thailand's future policies depended on the results of the Uruguay Round, and what were seen as results to be obtained in the Uruguay Round itself Thailand was increasingly dependent on the world economy should continue on its course towards an open system.

108. The representative of Finland, speaking on behalf of the Nordic countries, noted that rapid growth in the Thai economy would have to be managed carefully in order to avoid overheating.

109. Thailand's economic growth had led to an accentuation of regional differences. Awareness of the environmental impact of economic activity, particularly had increased. He asked to what extent environmental considerations were included in the planning of Thailand's future economic development, and how effective were measures which had been taken to decentralize economic activity. In this context, he sought information on how Thailand intended to deal with its deficiencies in infrastructure and education and on measures used to achieve a more even distribution of economic activities.

110. He mentioned that the cooperation of ASEAN countries had taken place so far mainly in the political field. In view of the active participation of ASEAN countries, individually and as a group, in the Uruguay Round, he asked for Thailand's views on the possibilities of increasing regional economic cooperation. Thailand's views on Malaysia's proposal to create an East Asian Economic Group, and the effects of such a group on Thailand's trade policy, were sought.

111. The representative of Finland pointed out that Thailand was not a signatory to any of the Tokyo Round Codes. The Nordic countries would welcome Thailand's decision to accede to them and would appreciate any indications of the possibility of such a decision.

112. The representative of Hungary appreciated Thailand's import liberalization measures in recent years. Further liberalization would strengthen the efficiency and competitiveness of the Thai economy. The important rôle of international trade in promoting economic growth was shown by the high share of trade in Thailand's GDP. Thailand, like Hungary, supported the principle of non-discrimination. He hoped that the full implementation of the programme of Thailand's economic transformation would contribute to a more dynamic development of their bilateral trade relations. He commended Thailand for its active participation in the Uruguay Round and in the work of the GATT to contribute towards an improvement and strengthening of the multilateral trading system.

113. The representative of Sri Lanka congratulated Thailand for its liberalization measures implemented since 1980. Sri Lanka was the 35th largest importer of Thai products, despite being a nation of only 17 million people - an indicator of Sri Lanka's own liberalization policies. He said that Thailand's example of a wide ranging package of liberalization measures would be useful for Sri Lanka's own programme of liberalization.

(4) Responses by the representative of Thailand

114. The representative of Thailand thanked the contracting parties which had praised Thailand for its policies. Regarding non-participation of Thailand in the Tokyo Round Codes, he said that Thailand was still awaiting the improvement of the Codes in the Uruguay Round before taking any decision.

115. ASEAN should be viewed as an avenue for increased cooperation between participating countries in a GATT-compatible manner conducive to the international trading system. In Thailand's experience, ASEAN had served to strengthen the multilateral trading system. Evidence of this was provided by the rôle of ASEAN in the Uruguay Round negotiations. The share of Thailand's trade with other ASEAN countries was low because ASEAN countries had many products in common. The Common Effective Preferential Tariff, would effectively lower intra-ASEAN tariffs to a common level and hopefully enlarge the effective market. The Fourth ASEAN Summit would be held in the near future. He hoped that further progress would be made at that meeting towards expanding intra-ASEAN trade.

116. The East Asia Economic Grouping would not be trade restrictive or discriminatory. Its objectives would be to pursue trade and economic

cooperation in a manner which served to strengthen the multilateral economic system.

117. The agricultural sector would continue to play an important rôle in Thailand's economy, and agro-based industry would be important for the foreseeable future. Thailand had sought to expand and diversify its product structure and its export markets. These efforts had, however, met with problems which had curbed Thailand's ability to perform as well as it could under fairer conditions of competition. Thai exports of agricultural products in raw and processed forms faced problems such as the effects on world markets of export subsidies by some developed countries, as well as a variety of market access impediments such as import prohibition, quantitative restrictions, and stringent health and sanitary regulations. Thailand attached great importance to the outcome of the agricultural negotiations in the Uruguay Round, in which it was participating with other members of the Cairns Group.

118. Thailand's emerging exports of manufactures also faced high protectionism, often because it was a more cost-effective supplier. He referred to measures such as the enforcement of domestic legislation, proliferation of anti-dumping and countervailing actions, and growing use of environmental protection as trade barriers. Thailand attached great importance to the market access opportunities to be provided as a result of the Uruguay Round.

119. Thailand's trade policy was moving towards greater liberalisation, following the general trend of domestic economic policies. He linked the pace and nature of Thai reforms to the opportunities provided by the external trading environment. In this context, the outcome of the Uruguay Round would be of great importance to Thailand.

IV. USE OF MAJOR TRADE POLICY INSTRUMENTS

(1) Statement by the first discussant

120. Thailand uses several major policy instruments with the aim of directing the economic development of the country and its export oriented foreign trade. Of particular importance are tariffs, business tax on imports, import licensing, various instruments for investment promotion, instruments concerning private trade monopolies, Government procurement, export licensing or quotas, and price controls. I think there is room for discussion on these policy instruments, including the context of the general objectives for trade policy spelt out in the Thai report and that, I quote, the principal goals of the Thai trade policy in recent years have been to prepare the country for a greater rôle in international trade, create a conducive environment, encourage a constructive and competitive economic structure and liberalize trade domestically and internationally by removing trade barriers and limiting trade distortive effects to a minimum. With a view to gaining market access for its exports, Thailand has pursued a policy of promoting and diversifying trade relations with all countries.

121. The Thai Government would like Thailand to become a regional centre for trading and service industries. To achieve this, as we can see from the report, the Government will continue to liberalize trade in goods and services, will try to diversify export markets, paying more attention to Indo-Chinese countries' markets, will adjust its economic, fiscal and monetary policies to make them more flexible and responsive to the trends in international trade and finance.

122. It has been underlined in the report that Thailand strongly supports the principle of non-discrimination and applies m.f.n. tariffs to about 99 per cent of its imports. This means that two exceptions to the application of m.f.n. tariffs: one, under the ASEAN Preferential Tariff Agreement and the other under the Global System of Trade Preferences among developing countries (the so called GSTP) do not have significant influence on Thailand's m.f.n. trade. Under the ASEAN Agreement reductions are up to 50 per cent for the eligible imports. Under the GSTP, tariff concessions, ranging from 10 to 20 per cent, are applied to imports of 11 products from GSTP participants.

123. As far as Thai exports are concerned both reports underline that Thailand's exports receive preferences under the Generalized system of Preferences from developed countries.

124. On the basis of the reports one can see that Thailand has bound only 3 per cent of tariff items, which cover about 12 per cent of imports, but has offered to extend the scope of bindings in the Uruguay Round. There is

a large margin between the statutory and applied rates and a wide dispersion of tariff rates. High tariff peaks and escalation characterize the tariff régime. Many agricultural products have alternate rates, which provide for the application of the higher rate. Most local manufacturers benefit from high tariff protection. There are several schemes for exempting, or refunding, import and other duties on inputs contained in export products. Taking into account that statutory rates are much higher than the applied tariffs, and the fact the Minister of Finance is authorized to change the tariff rate without the approval of parliament, the concern may be raised about the degree of arbitrariness and unpredictability in the level of tariff protection.

125. The business tax on imports might be discussed because of the basis of its imposition. Even if the same rate is applied, the business tax may have a differential impact on imports and domestic production. However, the intended tax reform should be taken into account as a move in the right direction.

126. The system of import licensing, in my opinion, is well explained in both the Thai and Secretariat reports. It seems that its major objective is to promote Thai production and that GATT Article XVIII:C has been mentioned as a justification. Nevertheless, the main objectives of this system are spelled out in the Thai report as follows: to monitor import transactions for statistical purposes, protect national security, to protect public morals, to protect human, animal or plant life or health, regulate the importation of gold and silver and to promote the establishment of particular industries. Most of the above mentioned objectives should not per se have negative effects on imports. However, I would like to note that in most cases the import licensing is discretionary and that some products have been subject to licensing for development reasons for many years. There are many Acts that regulate licensing. This could create problems of transparency and difficulties from the point of view of correct application and smooth functioning of the system.

127. Noting that Thailand has undertaken the import liberalization process, it would be useful if it could provide information on what percentage of imports in recent years and at present was subject only to tariffs and on the share of imports affected by licensing and quotas in total imports.

128. The policy of the Thai Government is to promote exports by limiting export controls to a minimum. The objectives of export control are to fulfil conditions under bilateral agreements; conserve national resources, environment and energy; prevent or relieve critical shortages; fulfil standardization requirements; maintain minimum export prices; and to regulate exportation of gold and silver. The Export and Import Act of 1979 empowers the Minister of Commerce to control the export and import of

certain products when it is necessary or appropriate to protect economic stability, public interests, public health, national security, peace and order, and public morals and any other State interest. It would be useful if Thailand could elaborate more on how often this authority has been used by the Minister, especially taking into account that "any other State interest" as a basis to control trade is a rather large and imprecise definition. The Export Standards Act of 1960, amended in 1979, empowers the Minister of Commerce to establish standards and impose rules and procedures on the inspection of exports and to lay down penalties for infringement, for the benefit of export promotion, safety and prevention of any damage to the nation's reputation and economy. On the basis of the Thai and GATT Secretariat reports, one can conclude that the implementation of this act has positive effects on the overall efforts of Thailand to promote the quality and increase the quantity of exports.

129. The Investment Promotion Act of 1977 is a very important policy instrument. The Board of Investment may, under this Act, approve the promotion of investment projects in many areas if it considers them to be important and of benefit to Thailand. In both the Thai and GATT Secretariat report there is much information on Thailand's foreign and domestic investments. The authorities are providing substantial incentives for promoting the output of the beneficiary industries, for economic activities outside the Bangkok region and for those that are export oriented. The benefit are provided subject to stipulated conditions, one of which is local content, reaching even 80 per cent in some industries. Incentives are provided in various forms, including concessions on some taxes and fees such as corporate income tax, royalties and certain taxes on inputs from domestic sources. Various guarantees are also provided, including freedom from nationalization. In its efforts to attract foreign investments, Thailand's success story, could be an example for many developing countries. From that point of view, it would be useful for us to be better informed on the extent to which local content requirements have contributed to increase in production and development of domestic industry. This question could also be covered under consideration of sectoral aspects of trade policies and practices.

130. Beside the above, important policy measures include various regulations on state and private trading monopolies, export licensing or quotas as well as price control. In certain cases, price control leads to subsidization for imports, excluding the action of market forces in the internal market for those products. On all this there is much information in both reports. It should be noted the fact that the competent authorities are given important discretion in deciding. It can be beneficial from the point of efficiency in decision-making, but could be a cause of unwanted side effects. This concludes my remarks.

(2) Statement by the second discussant

131. In addition to the very comprehensive remarks of my neighbour, just four slightly critical points. My neighbour has already drawn the attention to several elements of the Thai tariff structure, the large amount of unbound tariffs, tariff peaks and tariff escalation. In addition to that, I would like to draw the attention to another fact that arises from both the Thai and the Secretariat's report, namely that Thailand is still for a considerable extent dependent for its Government income - about 25 per cent - on import tariffs. It would be interesting to hear from the Thai authorities how they feel about this dependence and how they would like to ensure that import tariffs will be mainly used exclusively for trade policy goals. In the light of the introductory remarks of the Thai ambassador a while ago, I could ask whether the foreseen tax reforms will also result in considerably lowering this kind of dependence.

132. The second remark is on the Thai export promotion schemes which are indeed highly successful. Certain aspects, however, such as remission of tariffs and remission of business tax, special privileges for export oriented projects promoted by the Board of Investments concessional credits etc., raise the point to what extent the Thai Government is in fact giving an easy argument to foreign competitors with which they can convince their Governments that some of the Thai exports could be defined as unfair trade and consequently be countervailable. I noted that the Thai ambassador in his introductory remarks raised the point that his country experienced in its exports a whole range of what he called, and rightly so, protectionist measures. But maybe there is a link in the way exports are promoted. I would be very grateful if we could discuss this point a little more.

133. The third point, Government procurement, still seems to be a major instrument for giving preference over domestic suppliers. Apart from several preferential margins for domestic or ASEAN supplies, the criterion of "protecting the national interest" also seems to indicate a bias against imports. It would also be interesting to hear from the Thai authorities whether there are any intentions to bring these policies more in line with their general market oriented attitude.

134. My fourth and last remark under this heading is on the basis of the Secretariat's report where it is pointed out that in several sectors, a multiple use of trade-related measures such as tariff licensing, local content requirements, tax and duty exemptions and remissions, price support and incentives for, or limits to investment exist, which do not always interact in a coherent manner. It was already enlightening to hear from the Thai ambassador that the Thai authorities plan a streamlining of most of their policies. It would be also very interesting to get an indication to what extent these changes in policies would be more less bound together,

and in what kind of time frame we would think. I think the Thai ambassador already gave us an answer that, for a large part, a decision of the Thai authorities will be dependent on the outcome of the Uruguay Round.

(3) Statements and questions by the members of the Council

135. The representative of Canada noted the major changes in Thailand's tariff system in the past decade, and expressed concern about several aspects of the tariff policy. The current average trade-weighted tariff level was higher than in 1982, high tariffs were applied in some industries such as food processing and transport equipment, and the use of alternative tariffs could result in considerable uncertainty. In light of the recent liberalization for machinery items, Canada asked if there were further plans for the rationalization of the Thai tariff system. He also asked whether, with greater macroeconomic stability, Thailand planned to delink tariffs from their national revenue rôle, and how Thailand could reconcile tariff escalation, in specific sectors where it enjoyed comparative advantage, with its drive towards increased economic efficiency. Thailand's offer in the Uruguay Round to increase the scope of tariff bindings was also noted. Canada was also concerned that the number of items subject to import licensing was larger than in 1982. He asked whether, in the light of the rapid development of several industries, there were any plans to reduce the coverage of licensing.

136. While supporting the replacement of quantitative restrictions with tariff-related measures, Canada was concerned with the use of variable surcharges for this purpose. He asked whether Thailand intended to broaden the coverage of items for which quantitative restrictions had been replaced by tariff-related policies, whether Thailand would continue to apply surcharges, and what would be the criteria for phasing them out.

137. With respect to Thailand's public procurement policy, the representative of Canada said that it was in the interest of the Thai economy that it receive the best value for money spent on its projects. He encouraged Thailand to liberalize access for foreign bidders in those sectors where the Government intended to remain the major participant. He asked for a clarification of the "national interest" criteria applied to foreign bids. He encouraged Thailand to participate in the existing Subsidies and Anti-Dumping Codes and to participate in the new Subsidies Code coming out of the Uruguay Round, if Thailand had any intention of using anti-dumping and countervailing duties in the future.

138. The representative of the United States commented on a number of Thailand's trade policies. Quantitative restrictions were still common, and were a glaring exception to the country's trade liberalization. He also noted the requirement that the Thai Food and Drug Administration

register all imported food items. In this context, though licensing was not intended as a barrier to imports, it did act as such because of its cost, duration, and demands for proprietary information. The importer had to pay between \$600 and \$1,000 per item, and the registration process required from three months to one year. He asked whether Thailand had notified these restrictions to the GATT, and what plans existed to rationalize or eliminate them.

139. Thailand imposed high tariffs. Thirty-six different rates were currently in place. Thailand's trade-weighted average tariff was about 23 per cent, 25 per cent for capital goods and almost 40 per cent for consumer goods. High tariffs were a major barrier to agricultural trade, with alternate tariffs applied to a large number of these items. For some products, the specific duty had at times been equal to 300 per cent. He asked the Thai delegation to describe future plans for tariff reform and the time frame of the envisaged changes. In particular, would a comprehensive reform of Thailand's tariffs and tariff structure be a part of the move to adopt the VAT system, and would agriculture be covered in this restructuring?

140. Piracy of books, records and films was extensive in Thailand. Its trademark law did not provide any protection to service, certification and well-known marks, and the patent law did not protect certain classes of technology ranging from pharmaceutical products to agricultural machinery. Thailand's laws in this respect were not even up to the standards of its neighbours in the region.

141. Thailand maintained arbitrary customs valuation procedures, which acted as a barrier to imports. Thailand used the highest price of any product imported from any given country as a check price for imposing tariffs, often disregarding the actual invoice value. This resulted in overvaluation of imports and unfair taxation of lower priced products.

142. Since joining the GATT in 1982, Thailand maintained a waiver with respect to certain discriminatory business and excise taxes. In October 1990 this had been extended until 31 December 1991. At that time, the Thai representative had reiterated his Government's earlier commitment to provide a tariff-line listing of the items affected by the discriminatory taxes. The United States representative hoped that this information would be submitted soon.

143. The representative of Australia congratulated Thailand for relying on tariffs as its main trade policy instrument. Although Thailand's tariffs were generally high, tariff escalation was present, and the level of tariff binding was low, Australia complimented Thailand for having reduced its average applied tariff and for planning further reductions and

rationalization of tariffs. At the moment, the Thai tariff system was not fully transparent. Applied rates could vary considerably from statutory rates and were not always included in the customs tariff schedule.

144. Thailand, a strong supporter of the multilateral system, had a number of bilateral and regional trade agreements which did not divert trade to any degree. Australia congratulated Thailand for adhering to the GATT principle of non-discrimination, not imposing any voluntary restraint arrangements on its trading partners, not imposing import restrictions on a discriminatory basis, and applying tariffs on a most-favoured-nation basis to virtually all its imports.

145. Thailand had made little use of the diverse range of the non-tariff barriers which characterised many of the previous Trade Policy Reviews. The two main instruments used by Thailand were import licensing and import surcharges. Further information on these measures and several other internal regulations of Thailand would be required to clarify some questions related to GATT principles. Import licensing seemed to provide a generally high level of protection in some areas. Australia sought information on the imposition of import bans under the Export and Import Act and the Investment Promotion Act, especially in light of Thailand's lack of use of safeguard action under article XIX. Similarly, import surcharges could be applied on a case by case basis. Reasons for imposition of these surcharges did not seem to be evident. Clarification on local content requirements imposed or encouraged by the Department of Foreign Trade, the Board of Investment and the Bank of Thailand was also sought to enhance transparency regarding these measures.

146. Referring to policy instruments aimed at expediting imports of goods in short supply, the representative of Australia said that though these were, in principle, liberalizing, they could give rise to uncertainty for those seeking future access to the Thai market. He asked how regularly Thailand notified and updated tariff concessions as well as import surcharges, and through what source.

147. Australia urged Thailand to consider joining the Customs Valuation Code. This would impose disciplines on some areas of Thai customs procedures which gave cause for concern. These included delays of up to one year for goods to clear customs if documents were unavailable, the ability of Thai customs to detain goods if the amount of duty was queried, and the application of minimum import prices for customs duty purposes on certain items.

148. The representative of Finland, speaking on behalf of the Nordic countries, said that discretionary aspects of the Thai tariff régime introduced elements of instability. If Thailand's offer to bind its

tariffs was sufficiently large then, together with the plans to simplify the tariff régime, it could bring a stabilizing effect. However, Thailand's offer so far did not seem to meet this end.

149. He asked for information on the plans to improve intellectual property protection. Their main concern was that the new arrangements should not contain discriminatory features for any product or service.

150. The representative of New Zealand welcomed the general trend towards reduced protection in Thailand, and hoped that this process would be pursued consistently and be accelerated. There was considerable room for further reform. The current tariff system was complex and contained many discretionary powers; the tariff level was higher now than in 1982, and more items were subject to import licensing. New Zealand hoped that Thailand would be able to improve its market access offer in the Uruguay Round, and looked forward to continuing further bilateral negotiations.

151. Thailand's statutory tariff levels remained very high, and only 3 per cent of all tariff items were bound. This created considerable uncertainty. Implementation of Thailand's Uruguay Round offer to bind its tariffs at low levels would be a first step to reduce this uncertainty. A successful overall Uruguay Round outcome, especially in areas of Thailand's key exports, would ease Thailand's task in taking on more extensive tariff bindings.

152. Pointing out Thailand's use of alternate tariffs and surcharges, he said that surcharges were often variable and lacked transparency. He hoped that Thailand, along with all countries using such measures, would phase them out. Further, he hoped that Thailand would make an early progress towards accession to the Customs Valuation Code, and thus improve transparency and certainty for exporters to Thailand.

153. The representative of New Zealand was pleased to note Thailand's unilateral action in recent years to remove import licensing from a number of items. However, the Secretariat report indicated that the remaining import licensing controls were overly complicated. He hoped that import licensing in Thailand would be made more transparent.

154. Regarding Thailand's intention to replace the business and municipal taxes with a value added tax, New Zealand noted that exemption for "special" groups or producers could produce economic distortions. It was hoped that the value added tax would be imposed without introducing distortions, including on foreign suppliers.

155. Recalling Thailand's recent proposal for moving towards an ASEAN free trade arrangement, New Zealand sought information about, and the opportunity for constructive comments on, any proposals.

156. The representative of Japan said that while tariff revenue constituted an important portion of Government revenue, the Thai Government had reduced tariffs to promote export and foreign investments. Nonetheless, high tariffs were still imposed on many items. In 1989, applied tariff peaks of between 96 and 231 per cent were imposed on certain leather items, transport equipment, beverages, spirits and foodstuffs. He hoped that Thailand would reduce tariffs to a reasonable level. Furthermore, noting the low level of tariff bindings by Thailand, he hoped that the offer in the Uruguay Round to bind about half of the total tariff items would be implemented soon.

157. Most items subject to import licensing were under non-automatic licensing. For more than half of these products, such as certain types of motor vehicles, tractors, and diesel engines, imports were generally not allowed. He hoped that the Thai Government would reduce the number of these de facto import prohibitions.

158. Thailand claimed that its Government policies were open to free competition. Japan would however, appreciate clarification of the procedures and the criteria upon which the Thai Ministry of Industry set certain standards and certification for products qualifying for preferential procurement for domestic products.

159. Noting that future economic and social development in Thailand would increasingly depend on the efficiency of investment, he said that reducing distortions in the structure of incentives such as the local content requirements facing private foreign investors in selected industries would gain in importance.

160. The representative of India said that tariffs in developing countries served a dual purpose, namely, affording protection to infant domestic industry and providing a substantial portion of Government revenue. He noted that a sizeable proportion of Thai Government revenue was derived from import duties. He appreciated that consistent with the objective of promoting industrialization and development, Thailand had consciously followed a policy of reducing tariffs on industrial raw materials, intermediates and machinery required in the manufacturing sector. In several instances, the applied rates were much below the statutory levels.

161. Governments in developing countries had to manage their scarce foreign exchange resources in order to maximize utility to the community at large. Thus, the use of import licensing was unavoidable given Thailand's stage of

development, with imports of luxury items and manufactures being regulated. India was encouraged to note that Thailand had made a beginning to substitute tariff-based policies in place of non-automatic licensing.

162. The representative of the European Communities said that while the general trend in Thailand suggested a gradual move towards more openness, the overall picture was mixed. Thailand's weighted applied tariff was higher than in 1982. With largely unbound tariffs, this implied uncertainty for traders. For a country with Thailand's level of development, tariff bindings of 3 per cent were not satisfactory, nor was the offer which Thailand had made for increased binding under the Uruguay Round. Thailand had some very high tariff levels and peaks in sectors of particular interest to the Community, i.e. textiles, leather products, motor vehicles, alcoholic beverages, foodstuffs, and chemicals. Further, customs procedures in Thailand were very slow. The number of items now under licensing was also higher more than in 1982. Again, products of particular interest to the Community featured prominently such as textiles, transport and chemical sectors.

163. Noting that recourse to discretionary import surcharges appeared to be declining, the representative of the Communities said that there was always uncertainty regarding the régime which would apply in six to twelve months time. The EC was pleased with Thailand's move to a value added tax, away from the discriminatory business tax. In this connection, the Thai delegation was asked to confirm that the deadline of 31 December 1991 would be met for bringing the business and excise taxes into line with Article III of the GATT. Would the introduction of a VAT system affect these rates? The Thai delegation was asked for a report on the plans to merge the excise tax rates for imported and locally produced whisky, and on the method for collecting taxes for imported and domestically produced whisky so as to avoid discrimination.

164. Thailand's practices in the area of Government procurement were particularly difficult to follow and needed to be opened up to greater scrutiny. Hence a decision by Thailand to join the relevant GATT Code, alongside other Tokyo Round Codes, would be highly desirable.

165. The problem of counterfeiting in Thailand needed to be addressed urgently. The representative of the EC asked when revised legislation governing copyright and trademarks could be expected.

166. According to the Communities, Thailand could be expected to bear a higher level of trade discipline, in light of its outstanding economic performance. This would include establishment of a schedule of tariff bindings at levels allowing trade to develop in less essential sectors as well as the priority areas, reducing the discriminatory element in the

trade régime, reducing the cumulative effect of policy instruments tending to discourage imports in certain sectors, and creating conditions of transparency and certainty for its trading partners.

167. The representative of the Republic of Korea hoped that Thailand would make further progress in several policy areas to make them GATT-consistent. In this context he noted import surcharges on certain items, the use of a discretionary check-price system for imposing tariffs, a rise in the coverage of import licensing compared to 1982, local content and export obligations in the field of trade related investment, and Thailand's not having acceded to any Tokyo Round Code. He was, nonetheless, encouraged by Thailand's ongoing efforts to work for equitable trade rules, and commended it for the steady implementation of liberalization and open door policies in general. He hoped that with a successful conclusion of the Uruguay Round in which Thailand was actively participating, the predictability and transparency of Thai policies would be further enhanced.

168. The representative of Hungary said that the tariff was an important trade policy instrument used by Thailand. Wider application of ad valorem duties would decrease the uncertainty faced by exporters to Thailand.

(4) Responses by the representative of Thailand

169. The representative of Thailand said that the increase in weighted average tariffs compared to 1982 occurred because the tariff liberalization in 1982 was followed by a drastic trade deficit for Thailand. The resulting macroeconomic destabilization was compounded by the world economic depression following the oil shock. The Government was forced to resort to GATT-consistent tariff protection measures.

170. Regarding the increase in coverage of import licensing since 1982, Thailand - an efficient agricultural producer - was forced to intervene in this sector in response to distortions introduced in the world markets by some major developed countries. Thailand was prepared to adjust both its tariff and non-tariff régimes in accordance with the results of the Uruguay Round negotiations.

171. Decision-making on tariffs was undertaken within the framework of the Tariff Commission, an inter-agency body comprising representatives from the relevant Government agencies. The Commission, which also takes part in the tariff negotiations in the Uruguay Round, analyses the costs and benefits arising from each tariff proposal and consults the private sector in the preparatory process of deciding the tariff rates. It submits its recommendation to the Cabinet, whose decisions are put into legal effect through Ministry of Finance Notifications issued under the authority

provided under the Customs Tariff Decree of 1987. This thorough process reduces the degree of discretion to nil.

172. The Thai Government was beginning to replace remaining quantitative restrictions with tariff based measure. As of last year, only two products were subject to import quota, namely garlic and two-wheeled tractors. The quota on the latter was revoked early this year, while the former was under import licensing.

173. The Government's objective on duty drawback and tax rebate schemes was to neutralize the effect of the import tariff and business tax on imported raw materials used by exporters. The rates, based on input-output tables, were GATT-consistent. Thailand's customs valuations procedures followed the Brussels definition value under the Customs Cooperation Council. A decision with regard to the GATT Customs Valuation Code would depend on the results of the Uruguay Round.

174. Import licensing covered only approximately 5 per cent of Thailand's 6 digit HS categories. More than half of these items required import licensing for health and sanitary reasons, protection of public morals, and international commodity agreements. Thailand's licensing system was statutorily required; prior approval of the Cabinet was required for imposition or lifting of every import control measure. Procedures were clearly enumerated and published in the Government Gazette, newspapers and broadcasted on radio. There was no discretion. The Government was reviewing the import régime and had unilaterally liberalized, as well as introducing tariffication on some products. The ongoing process of liberalization and deregulation would continue, even though serious distortions in world markets, especially for raw and processed agricultural products, hampered the adjustment process.

175. During the past five years, under the Export and Import Act of 1979, Thailand had imposed export licensing on only seven items. The levying of export taxes was necessitated on one item because of EEC anti-dumping action and hence had to be subject to licensing, two items were covered due to a bilateral agreement with the United States on textiles, and three items for the purpose of imposing quality control on agricultural products. In the same period, import licensing had been imposed on five products for safeguards purposes.

176. In 1990, the Thai Board of Investment had removed all surcharges it had imposed. The surcharges imposed by the Ministry of Commerce, were on soybean and fishmeal, as an effort to replace import licensing with tariff based protection.

177. The impressive performance of the Thai economy had led to major reforms, including in the tariffs and tax structure. Currently, goods subject to excise tax were exempt from business tax. The VAT would apply to all items. A restructuring of Customs duty had been approved; this would replace the current 36 by 6 rates. Under the new scheme, raw materials or finished products for items such as medical devices and fertilizers would not be taxed. Other materials would be taxed at 5 per cent, semi-finished products at 10 per cent, finished products at 20 per cent, machinery at 30 per cent, and motor vehicles at a different rate. Tax rebate and refund scheme would be revised to apply to import duty on raw materials only. There will be no need for the Board of Investment to continue its tax incentive programme under the revised scenario. The introduction of VAT would also solve the problem of discriminatory imposition of business tax on imports and domestic products.

178. Alternative duties, were used mainly on certain agricultural products whose prices vary depending on their grades. This made it impossible to apply ad valorem duties. The level of bindings would be improved with the conclusion of the Uruguay Round. Thailand's offer encompassed a large increase in the extent of bindings, and covered agricultural products as well as industrial items including textiles and garments. This effort was not met by major trading partners, who had not indicated their offer in agricultural products, a main interest of many developing countries, including Thailand.

179. The Thai Government did not support dumping as a marketing strategy. However, as a result of its efficiency and ability to adapt to change in the international markets, Thailand had been subjected to various investigations by the Governments of non-competitive producers. These harassments had disrupted Thailand's economic expansion, and had adversely affected its unilateral efforts towards further trade liberalization.

180. At present, the Government was revising the Price Fixing and Anti-Monopoly Act in order to encourage competition and to limit regulation to monopolies and restrictive business practices. Regarding Government procurement, he said that the Secretariat report misrepresented the Thai practice. There was no discrimination between domestic and foreign products. An open bidding system was used which provided equal treatment to all bidders. If the product was a product under the standard of the Thailand Industrial Standard Institute (TISI), a 10 per cent preferential margin was allowed. Foreign suppliers could apply for TISI registration without discrimination. Thailand's procurement practice was thus non-discriminatory. The purpose was to promote the upgrading of the country's industrial standards. The TISI standards followed ISO standards. As of 1989, the TISI had established 1,121 industrial standards. Details of these could be obtained from the Institute.

181. Tenders for Government procurement were governed by the Regulation of the Office of the Prime Minister on Supply Materials of 1978 and amendments. All procurement was subject to examination by the public prosecutor. In normal practice, the purchasing agency could make the final decision. Only projects which involved big investment outlays or important infrastructure projects, whether they involved foreign or domestic parties, were subject to final confirmation by the Cabinet to ensure that they were in conformity with the national economic and social development plans.

182. Thailand's policy regarding intellectual property rights was to extend adequate and effective protection in order to encourage transfer of technology essential for national development. The Government had set up an Intellectual Property Committee to review and make recommendations and prepare proposed amendments to relevant existing laws regarding patents, copyrights and trade marks. In bilateral talks on patents with its trading partners, Thailand had indicated that protection would be sought for pharmaceuticals. As for other amendments, the Thai Government would take into account the developments in the Uruguay Round negotiations on TRIPs, and also relevant international reforms and standards. Thailand had long been a member of the Berne Convention which provided an excellent framework for its copyright law. Under its law, regulations and procedures, the Government had taken various measures to strengthen copyright enforcements. Moreover, the relevant Thai authorities were conducting an anti-piracy campaign to enhance public awareness of copyright protection in Thailand. The Government had also submitted to Parliament amendments to the trademarks law, which would extend protection to cover well known marks, service marks and certification marks.

V. SECTORAL ASPECTS OF TRADE POLICY

(1) Statement by the first discussant

183. The sectoral aspects of the Thai trade policies and practices are elaborated in detail in the documentation submitted to us and especially in the GATT Secretariat report. In yesterday's discussion during the examination of the use of major policy instruments, several delegations already directly or indirectly pointed out to some sectoral aspects. Under item III, relating to sectoral aspects, one may discuss, in my opinion, not only the objectives for and various instruments applied to different sectors and their intensity but also the effects of policies on production and export performance. In agriculture, the declared objectives of the Thai policies are to maintain economic growth and stability through expansion of agricultural outputs and the volume of agricultural exports; to promote the position of farmers and agricultural workers; and to improve the quality of life and that of the environment. Within agriculture, greater tariff protection and other forms of assistance are provided for agro-processing. Import licensing is applied to a number of agricultural products, including rice and sugar, but especially to processed agricultural products, including skimmed milk powder which is considered a product of an infant industry. Generally speaking, Thai trade policy, including the tariff structure, favours the development of infant industries particularly in manufacturing and natural resource processing. The Secretariat report stressed that the production of motor vehicles, machinery and metal products is generally promoted and assisted. Besides high tariff rates other policies are used, such as import licensing, local content requirements, tax and duty rebates on products used in the production of export goods.

184. In the Thai report it has been underlined that the Government will promote domestic industries "to compete in international markets on the basis of higher quality and lower production cost by reducing import taxes on machinery parts and raw materials". Last year the Government reduced import duties on machinery items to 5 per cent.

185. The main objectives of policies are to promote domestic production of light industries, selected heavier industries and those export oriented. The industrial sectors favoured by the policy include textiles and clothing, leather products, motor vehicles, engineering products and some non-metallic products. Further comments as well as the questions and answers relating to the level of sectoral protection that could be expected in today's discussion would be of interest to this review.

186. I would also like to draw your attention to the fact that the Thai Government also encourages private participation through joint investments

in infra-structure development projects and the extension of industrial activities to the provinces in new economic zones.

187. Finally, and this is my last comment, I would like to point out that Thailand is liberalizing its trade in a very selective manner, with the objective to change the production and exports structure towards greater share of products at a higher level of manufacturing. Many of these industries are now effectively much more protected than the industries providing inputs. It could be discussed whether such protection could be successful on a longer-term basis, from the point of view of efficiency and competitiveness of protected industries. I believe that a relatively high protection could give successful results only if accompanied with a clear liberalization prospective in a defined time frame. It does not exclude, however, for a developing country like Thailand, shifting of higher protection to new infant industries that will emerge in the meantime. I think that it would be useful to hear whether the Thai authorities in the process of formulating their intention to continue with their rationalization of trade related policies, have examined the problem as to how long it would be beneficial to protect an industry on the basis of the infant industry argument and whether the export competitiveness of a product has been taken into account in such considerations.

(2) Statement by the second discussant

188. Today and yesterday, there was praise overall for Thailand's economic performance and admiration for the macroeconomic policy mix that was applied by Thailand. From several quarters we could hear that Thailand might serve as a model for other developing countries. On the debate on trade policy instruments and the sectoral aspects the picture was more mixed. There were critical remarks and also remarks that showed a considerable degree of understanding why Thailand had chosen sometimes to protect some sectors. There were also remarks in the direction that maybe Thailand's stage of economic development called for a different policy at a certain moment.

189. In the answers of the Thai ambassador, I think he already outlined plans for streamlining and liberalizing Thailand's trade policies, which leads me to think that if in any way the existence of a TPRM exercise could have contributed to some elements of these plans, or the time frame in which they are implemented, then we could congratulate the GATT on this exercise, because these plans certainly go from the GATT point of view in the right direction.

190. One of the further striking points in the debate was the link made by the Thai ambassador between the possibilities for Thailand to go on in the

direction of a more liberal and open trade régime, and external factors including a successful package of the Uruguay Round.

191. I think what I take from this debate is one of the other remarks of the distinguished Thai ambassador that the object of the Thai Government is to move away from the rôle of regulator and controller towards that of supporter - promoter and facilitator of the functioning of the Thai economy.

(3) Statements and questions by the members of the Council

192. Citing the Secretariat report, the representative of the United States said that Thailand maintained high effective protection in certain sectors through a multiplicity of measures, including price support, tax exemptions, tariffs, licensing, concessional credit, and domestic content requirements. These affected in particular the agricultural and food processing sectors, as well as motor vehicles and some other manufacturing sectors.

193. Referring to the Thai representative's earlier statement that Thailand had no intention to protect particular sectors, he asked for a more detailed description of how the Thai Government planned to phase-out or eliminate sectoral protection.

194. Congratulating Thailand for diversifying its manufacturing base and developing an outward looking industrial sector in a relatively short time, the Australian representative said that a major reason for this achievement had been strong Government intervention to promote and assist emerging industries. Direct intervention had taken the form of import licensing, local content requirements, tariff concessions, and the encouragement of foreign investment in certain sectors. To aid Thailand's restructuring, the Government had relaxed import controls and duties, and subsidised imports of selected products. While noting the presence of tariff escalation, he said that it was worth emphasising the comment in the Secretariat's report that Thailand had substantially reduced tariffs on many industrial inputs in recognition of the positive impact on boosting domestic industry.

195. The Australian delegate asked if the Thai Government or any research bodies had completed studies indicating that the relatively numerous instruments protecting its manufacturing sector could be reduced.

196. Regarding agriculture, the Australian representative said that, with industrialization, Thailand was moving towards broader production of processed or manufactured products. He noted the presence of tariff escalation in this context, and said that some applied tariffs on certain

agricultural products, such as fruit, were relatively high. Agricultural items were also protected and assisted by non-automatic licensing, price support mechanisms, and local content requirements. Government intervention, on a case by case basis, was also apparent through import surcharges or price intervention.

197. He said that as a fellow Cairns Group member and a country which relied on agriculture for about a third of its export income, Thailand shared a vital interest in securing comprehensive and sustained reform of world agricultural trade in the Uruguay Round. Australia would be interested to obtain from Thailand estimates of the cost to its farmers and its overall economic well-being, of the distorted world markets for its key agricultural commodities.

198. The representative of Finland, on behalf of the Nordic countries, said that Thailand, which acceded to GATT in 1982, maintained today higher tariffs and more import licensing requirements. Without any intention to be critical, he asked what would have been the foreign trade régime of Thailand in respect of bindings and tariff peaks if Thailand would have acceded now rather than in 1982?

199. The representative of New Zealand shared many of the comments made with respect to the infant industry policies of Thailand and those relating to the diversity of measures applicable to certain specific sectors. She questioned whether these were in Thailand's long term interest, and asked for Thailand's comments on rationalization policies. With respect to the agricultural sector, particular mention was made of import licensing, the levels of protection to agro-processing, and local content requirements for milk/skimmed milk powder along with the additional conditions imposed by the Ministry of Industry for milk. She asked if Thailand could give any response regarding phasing out such measures.

200. The representative of the European Communities said that the EC was impressed by Thailand's economic management. Given the successful management of its balance-of-payments problems, he asked if Thailand could assume a leading rôle in the balance-of-payments negotiations in the Uruguay Round and provide inspiration to other developing countries which had not been so successful. Further he asked Thailand to explain the manner in which criteria, if any, for local content are established, and the manner in which local content is a feature of foreign direct investment.

201. The representative of Canada said that Thailand's recognition of the linkages between its economic progress and its trade performance had clearly pointed it in the right direction. Thailand's performance, based on its export led growth, was proof of the success of its policies, and

further trade liberalization would assist significantly in the promotion of Thai economic development. Hoping that Thailand would examine the several areas mentioned by Canada, he encouraged Thailand to choose new policies with a view to transparency and efficiency, and were implemented with the view to fully integrate the Thai economy into the more open multilateral trade system.

(4) Responses by the representative of Thailand

202. The representative of Thailand said that Thailand's sectoral policy was a residue from its import substitution phase. The policy trend now was shifting towards greater liberalization and reliance on the private sector. Thailand did not practice selectivity, although the liberalization needed to be carried out step by step without disrupting the development process. The process of liberalization and deregulation would continue despite serious distortions in world markets hampering the adjustment process.

203. Thailand sincerely hoped to avoid infant industries growing senile. High protection in Thai textiles and clothing industries was a reaction to the long time over which distortions had prevailed in this sector. Protection in Thailand was through non-discriminatory tariffs which were GATT consistent. Further, Thailand's tariff binding offer included a lowering of its tariffs. Thailand was pleased that textiles was being addressed in the Uruguay Round. Once agreement had been reached satisfactorily in this sector, Thailand's policy would be adjusted according to its commitments.

204. Investment policy was an important tool for achieving social and economic objectives. The Government had set up a policy of more liberalized free trade in a fair and open competitive system, and was deregulating and eliminating specific protective measures. Steps had been taken in the automotive industry which was the most protected domestic industry. A competitive environment was being promoted domestically by a revision of the Price Fixing and Anti-Monopoly Act in order to encourage competition.

205. Thailand had successfully shifted from an import substitution policy to one of export promotion. The Government was tackling the problems facing the economy in a comprehensive manner, to ensure that the process of social and economic development was not disrupted. To maintain a high level of domestic and foreign investment, the Government was determined to solve the existing bottlenecks in the country's infrastructure and skilled personnel. The Government's fundamental rôle would be changed from a regulator and controller to that of supporter, promoter and facilitator of development under the goal of a more liberalized free trade in a fair and open competitive system. An open door policy would be emphasized. To foreign investors, the Government offered guarantees against

nationalization and competition from new Government enterprises. The Board of Investment would continue its efforts to promote joint venture projects and those promoting technology transfer into Thailand. The Board would also concentrate on decentralization and environmentally safe projects. The Thai investment régime would be considered open for foreign direct investment.

206. Local content requirements had been used by the Thai Government to help promote and establish supporting local manufacturing and support industries which contribute greatly to the country's social and economic development. These requirements had successfully contributed to the expansion of Thailand's manufacturing base.

207. On trade and environmental issues, Thailand had always been a vigorous supporter of the international efforts in the protection and conservation of exhaustible resources and environment. However, Thailand's view was that measures taken by countries in this area had significant implications and consequences on international trade. These efforts to protect and conserve natural resources and the environment should not be used as a disguised trade barrier or harassment. Regarding the interlinkage between trade and environment, Thailand's view was to adopt a step by step approach. To address the problem adequately and properly, all countries should be able to examine the issues of trade and environment as they relate to themselves and to the global community.

208. Rapid growth in Thailand had led to environmental problems in the country. The Government had increasingly geared its policy to deal with these problems. Policies included geographical decentralization of economic activity, together with more stringent criteria on industrial waste.

209. Responding to a question from Australia he said that in its policy formation process and trade negotiations, the Thai Government had always maintained avenues for private and academic sector inputs. The rôle of these inputs, including those of the Thailand Development Research Institute, had been substantial as Thailand had striven to use its scarce human resources in the most effective and efficient manner.

VI. FURTHER COMMENTS

210. The second discussant recalled the main thrust of the remarks on Thai policies made during the meeting, and the answers of the Thai representative. Thailand's responses had outlined plans for streamlining and liberalizing the country's trade policies, tax policies and competition policies. He said that if the trade policy review exercise had in any way contributed to these policies, the GATT could be congratulated as these plans went in the right direction, especially from the GATT point of view. A striking point was the link between the possibility for Thailand to liberalise and the external sector, including a successful package in the Uruguay Round. He complimented the Thai Government for moving away from its rôle of regulator and controller towards being a supporter, promoter and facilitator of the functioning of the Thai economy.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

211. This special meeting of the Council has reviewed and collectively evaluated Thailand's trade policies and practices, and their impact on the functioning of the multilateral trading system. As usual, my closing remarks are not intended to substitute for the review conducted by the Council of Thailand's trade policies and practices, but to summarize, on my own responsibility, the salient points emerging from this review. The full discussion, including Thailand's responses to points raised by participants, will be reflected in the minutes of this meeting.

212. Members of the Council welcomed the evolution which had taken place in Thailand's economy in the direction of more open policies and commended Thailand for its smooth transition from import substitution to greater integration into the international economy. Since the late 1970s, Thailand had pursued a range of positive policies, including fiscal and monetary discipline and a more flexible exchange rate régime. These policies, in combination with an improved external situation, had contributed to impressive growth and diversification of Thailand's economic structure, foreign trade and investment. The Council appreciated the important steps taken by Thailand to liberalize its trade and investment régimes on a most-favoured-nation basis.

213. The impetus provided by these developments had helped Thailand transform its economy from one founded largely on basic agriculture to a more diversified structure with a major share of domestic output coming from manufacturing. The foreign investment attracted to Thailand as a result had further strengthened Thailand's competitiveness and boosted economic growth.

214. It was pointed out that Thailand's liberalization and expansion of trade had been a positive contribution to the world trading system. At the same time the liberal international trading system had been highly beneficial to Thailand's promotion of exports. Even so, many members emphasized the need for Thailand's economic policy efforts to be supported by international trade liberalization, including in agriculture and textiles. The rapid growth in Thailand's international trade had increased its dependence on external markets and strengthened the emphasis given by Thailand, since its accession to the GATT in 1982, on a strong, open and equitable multilateral trading system. Members welcomed Thailand's active rôle in the Uruguay Round, including as a member of ASEAN and the Cairns Group, which stemmed from this development. It was recognized that a successful outcome of the Round would assist Thailand in pursuing its trade policy liberalization.

215. While commending Thailand for the direction of its policy reforms, Council members indicated several areas where general or particular measures created uncertainty or lacked transparency:

- Thailand's trade policy laws and practices appeared to be marked by a considerable degree of discretion. Particular mention was made of the import licensing régime, Government procurement (including the use of the "national interest" criterion), and customs valuation;
- Concern was expressed about the use of multiple policies such as tariffs, import licensing and local content schemes to protect particular sectors;
- Lack of transparency in some policy areas was noted. In this context, some members observed that Thailand had been unable to provide certain information to the Secretariat in preparing its Report;
- Infant industry protection had been in place for substantial periods of time in some cases;
- Tariffs remained high and disparate, with substantial escalation and tariff peaks for many product categories. The weighted average level of applied tariffs was higher than in 1982. Statutory tariffs were substantially higher than applied rates. Thailand had bound only about 3 per cent of its tariff lines. A significant share of tariff lines, especially for agriculture, bore alternate tariffs;
- The use of surcharges on imports, and provision of tax and duty exemptions on goods which were in short supply in the domestic market, introduced uncertainty in the trade policy régime;
- There was apparent discrimination between imports and domestic products under the business tax régime;
- Most items covered by import licensing were subject to non-automatic, discretionary licensing. The number of items under licensing now was higher than in 1982;
- The replacement of non-tariff measures by variable levy-type surcharges was seen as continuing existing distortions;

- The scope and variety of incentives for exports could lead to subsidization, and hence risk the application of countervailing measures by other parties;
- The need to improve intellectual property protection was emphasized;
- Thailand had not signed any MTN Code. Members particularly encouraged Thailand to accede to the Customs Valuation and Import Licensing Agreements. In this regard, it was pointed out that Thailand need not wait till the end of the Uruguay Round to consider signing the Customs Valuation Code because the nature of the Code had become reasonably clear.

216. Members welcomed Thailand's commitment to replace the business tax by a VAT system and expressed the hope that it would be applied in a transparent and non-discriminatory manner. The question was asked whether Thailand would seek an extension of its GATT waiver for the business tax.

217. The generally non-discriminatory nature of Thailand's tariff régime was recognized. Most members welcomed Thailand's offer to bind about 50 per cent of its tariff lines in the Uruguay Round. Some others felt that this offer was not fully satisfactory. Hope was expressed that future liberalization would be balanced and include all product categories.

218. Council members hoped that Thailand's plans to rationalize and further reduce tariffs, lower other import and export restrictions, and to replace the business tax with a more transparent VAT system would be implemented in the near future; that the Government would continue its policy of reduced reliance on import surcharges; and that the tariffication of non-tariff measures would be extended.

219. Members took note of the priority given by Thailand to domestic processing and decentralization of economic activity. One member, welcoming Thailand's liberalization, said that reductions in barriers to imports of raw materials, intermediates and capital goods were appropriate for a developing country where tariffs provided both protection for infant industries and substantial Government revenues, and import licensing was to some extent unavoidable.

220. Policies concerning liberalization of foreign investment conditions were welcomed. Some members looked forward to greater predictability and further liberalization in this area.

221. Important trade policy objectives of Thailand focused on promotion of light industries, selected heavy industries and export-oriented industries.

In this connection, Thailand had liberalized selectively, resulting in higher protection for certain sectors. This could in the long run affect Thailand's competitiveness and efficiency. Clear indications of the timing and nature of liberalization were desirable.

222. More information was sought on a range of issues, including: the process of making specific decisions in various policy areas; plans for developing alternative revenue sources to tariffs; customs valuation procedures; the trade régime for agricultural products; the nature of, and prospects for liberalization of, local content schemes; details of rationalization of sectoral assistance policies, in particular through the import licensing régime; criteria used for replacing non-tariff measures with surcharges; procedures used in Government procurement; the problems arising in Thailand's possible accession to the MTN Codes; how far environmental concerns had been incorporated in policy; Thailand's views on increasing economic cooperation with ASEAN; plans to widen the sources of foreign direct investment in Thailand; and steps taken to liberalize trade-related investment measures. One participant asked whether any research bodies had made studies showing how industrial protection could be reduced.

223. In reply to these comments and questions, the representative of Thailand recalled the statement by the Thai Prime Minister to the country's National Legislative Assembly, in April 1991, that the first priority of his Government was to institute a system which was transparent, accountable, responsive and would minimize the discretionary power of bureaucrats. It was intended that the Government become more and more a facilitator of trade and investment. Avenues were open to private sector and academic involvement in trade policy formulation.

224. The present level of tariffs resulted from the need to overcome a shortfall in revenue following Thailand's tariff reforms of 1982. Tariff decisions were made by the inter-agency Tariff Commission, in consultation with the private sector. There were no discretionary elements in tariff decision-making. Thailand planned to reduce the number of tariff rates from thirty-six to six, ranging from 0 to 30 per cent in general. Thailand had offered, in the Uruguay Round, to increase the coverage of its tariff bindings from 3 per cent to about 50 per cent of tariff lines, including agriculture and manufacturing sectors. This had not been matched by offers from major trading partners. Similarly, Thailand's membership to the MTN Codes in the near future would depend on the progress made in the Uruguay Round.

225. Thailand was replacing QRs by tariff based measures. Only two items were subject to quotas at the end of 1990, and one had since been liberalized. The list of items subject to import licensing now covered

only 5 per cent of Thailand's HS six-digit level categories. Import licensing required prior approval by the Cabinet. During the past 5 years, Thailand had introduced export licensing on 7 products, either in response to measures taken by major trading partners, or for quality control reasons.

226. Tariff drawback and remission schemes for exports were aimed to neutralize the effects of import duties and business tax.

227. Customs valuation was based on the Brussels Definition of Value.

228. The value added tax, which would be introduced in early 1992, would be levied on all sales of goods and services. Business tax would be abolished. Compensatory changes would be made in the structure of excise taxes.

229. The Government of Thailand had substantially reduced the extent and coverage of promotional benefits offered by the Board of Investment. These would no longer be necessary after the introduction of VAT.

230. Thailand did not pursue discriminatory government procurement policies. Open bidding was practised. A 10 per cent preference was, however, given to any product, from any source, which was registered by the Thai Industrial Standards Institute.

231. Competition law in Thailand was being revised to provide more adequate regulation of monopolies and restrictive business practices.

232. Regarding intellectual property rights, the representative of Thailand said that the law on patents, copyright and trademarks was under review with a view to extending adequate and extensive intellectual property protection in line with national policy objectives. An amendment to the trademarks law had already been submitted to Parliament with a view to protect well-known marks, service marks and certification marks.

233. Thailand's sectoral trade policy was a residue of its earlier import substitution policies. Reform had been underway since the mid-1970s on a step-by-step basis to avoid disruption in the development process. In relation to infant industry policies, Thailand was aware of the problems arising from overprotection and was therefore proceeding with a fairer and more open competitive system. The investment régime was open to foreign and domestic investors alike. Local content requirements had been used to help promote the establishment of domestic manufacturing and had contributed substantially to the development of Thailand's industry. These requirements were in the process of being rationalized, including in the automobile sector. Protection for the textile and clothing industries was

based on tariffs, and was in part a response to the distortions existing in world markets.

234. Thailand supported vigorously environmental concerns but insisted that measures in this area should not be used to create new trade barriers or harassment. All countries should have an opportunity to contribute to efforts being made in this field.

235. The representative of Thailand remarked that, while Thailand did not support dumping as a practice, Thai exports had been increasingly subject to trade harassment, including the threat of unilateral action. Regarding agricultural exports, he noted that unfair competition from subsidies by developed countries had led to severe distortion and economic loss. Impediments to Thailand's exports made it difficult for it to implement policy reform. Thus the outcome of the Uruguay Round was of great importance to Thailand.

236. In conclusion, the Council commended Thailand for its policy reforms, and noted the benefits thus accruing to Thailand and its trading partners. Thailand's future economic progress would depend on further liberalization and reduction in distortions in the domestic economy. The Council recognized that such reform would be considerably assisted by a supportive external trading environment, including a positive outcome of the Uruguay Round.