

# Executive Summary

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In forming bilateral free trade agreement especially with emerging markets such as Russia, South Africa, and Chile, countries not only of Thailand's but also others' interest, will improve trade and investment opportunities and relieve the country from relying heavily on few specific markets. For Thai SMEs, a free trade agreement initiative with new trading partner is crucial for successfully building up their competitiveness in global arena. However, effectively earn market access in a new market posts significant challenges to SMEs and appropriate sets of social and economic information related to these new market are required. On the same token, negative effects of free trade agreement are also inevitable and remedial measures are necessary to mitigate the impacts particularly on SMEs which are usually exposed to greater competitive risk.

The study divided into 3 parts by country in the analysis. Each part review and analyze data both from secondary and primary sources. Several in-depth interviews with domestic and foreign key informants were conducted and the information was utilized for the analysis covering the following issues.

1. Countries' social and economic potential analysis in forming free trade agreement between Thailand and the trading partners.
2. Economic integration status and trade measures
3. An analysis of trade potential between Thailand and the trading partners in general and by sector.
4. An industrial export potential analysis for Thai SMEs in trade partners
  - 4.1 Chile case covers automobile and parts industry, electronic and electrical appliances industry, and tourism industry
  - 4.2 Russia case covers furniture industry, prepared food industry, and tourism industry
  - 4.3 South Africa case covers rice, jewelry, automobile and parts industry, and tourism industry
5. Proposed action plans to facilitate SMEs in the preparation for free trade agreement

## **Chile**

Chile is a country with high economic potential which has signed several free trade agreements with countries in the same and other regions. With its strategic location and border next to Argentina and Brazil, the country can be served as regional product distribution center and a gateway to the region for Thai products. In addition, Chile has a very strong and efficient logistic sector especially in oversea transportation and port management. Despite those economic potential mentioned, recent trade between Thailand and Chile is far less than its potential. The calculation of revealed comparative advantage (RCA) index suggests that welfare gain is possible from trade creation. A number of products which Thailand has comparative advantage (RCA for export is greater than 1) are products Chile willing to import (RCA for import is greater than 1) including automobile and part, electronic and electrical appliances, prepared foods, etc. Similarly, there are number of products Thailand is willing to import and Chile has comparative advantage to export such as copper, copper wire, trout, salmon, zinc, wine, etc.

Constant market share (CMS) analysis indicates that Thailand's products are highly competitive in Chilean market. The result also shows that electronic and electrical appliances, automobile and parts are the product groups that have high growth in competitiveness. Moreover, the in-depth study of tourism industry illustrates opportunity for tourism promotion between the two countries. Far distance between the two countries and lacking of tourist information directly address to the targeted tourist groups are identified as major obstacles.

## **Russia**

Russia is a large country with border connected to different regions including Europe and Asia. It provides a trading link to several markets including CIS. The economy has shown substantial improvement both in terms of growth and development. Thanks to an increase in oil price, the country has benefited significantly from higher energy price since it is enriched with natural resources particularly oil and natural gas. Additionally, Russia has been a high-technology oriented economy and has bonded with Thailand for decades. Thus, there is no doubt that Russia presents Thailand with great opportunity for trade and investment especially for Thai SMEs. Nevertheless, Thai SMEs still face many difficulties such as language problem, lacking of understanding in Russia business culture, strict trade measures and regulations, and inadequate trade/product promotion to Russian consumers. RCA analysis suggests that automobile and parts, electronic and electrical appliances are products that Thailand has comparative advantage and Russia is willing to import. Iron and steel, aluminium, oil, and natural gas are products that Thailand needs to import and Russia has the comparative advantage.

CMS analysis, however, indicates that products from Thailand have no competitiveness in Russian market. An increase in Thai exports to Russia resulted from the growth in Russian market. Trade between Thailand and Russia still limits to a few products such as television receivers, rice, gem, computer, and prepared foods. Demand for Thai products fluctuates year by year according to the need in Russian economy. Tourism industry presents another good business opportunity for SMEs in both countries.

## **South Africa**

South Africa is considered to be Thailand's strategic location for trade and investment in the Africa region as gateway and product distribution center. Several bilateral and regional trade agreements had been signed and implemented by South Africa which adds more advantage to the Thai economy as trading partner. Natural resources such as coal, diamond, and iron have been the country major exports reflecting great potential for Thai SMEs to strengthen competitiveness through free trade agreement. South Africa not only provides new market but also opportunities for SMEs to enhance production efficiency. RCA analysis shows that rice, automobile and parts, and computer equipments will benefit from free trade agreement because they are South Africa's imported products and Thailand has comparative advantage. Diamond, aluminum, iron, and engine are products imported by Thailand and South Africa has the comparative advantage.

According to the CMS analysis, Thai products are very competitive in South Africa compare to its other trading partners. An increase of Thai exports to South Africa is resulted from market expansion and competitiveness improvement. Rice, prepared foods, rubber, furniture, automobile and parts, and garment and textile are some of the Thai competitive products in South Africa. Tourism industry also provide economic opportunity for the two countries to benefit from by establish promotion collaboration directed toward specific tourist group.

## **Proposed Action Plan for SMEs Promotion**

SMEs promotion strategy and action plans for Thailand-Russia, Thailand-Chile, and Thailand-South Africa FTA preparation are as follows:

1. SMEs trade and investment promotion strategy
  - 1.1 Trade promotion strategy covers the following action plans
    - Set up/improve trade and investment database system for the needs of SMEs to fully utilize the benefit of FTA and enhance competitiveness
    - Facilitate marketing information, trade measures and regulations, and trade event information to enhance trade opportunities for Thai and trading partners SMEs
    - Establish/extend/improve financial services to support SMEs trade and investment in the new market
    - Facilitate SMEs collaboration to strengthen competitiveness through product differentiation and export opportunities
    - Providing supports for Thai SMEs to set up trade representatives in the region and information on major trade representatives of the trading partners. Recommend setting up trading company by SME collaboration to enhance SME capabilities and competitiveness.

- Facilitate private trading company to extend its services for Thai SMEs
- Initiate working unit directly responsible for trade and investment coordination between Thailand and the trading partners so that it improves market access for Thai SMEs to the new markets.
- The working unit (possibly set up by SMEs collaboration) emphasizes on creating product quality controls and regulations, building product standards that are mutually accepted by Thailand and importers.
- Improving domestic logistic system efficiency especially inland logistic which is the significant weakness for Thai SMEs competitiveness enhancement.
- Developing packing products and packing system for agricultural and perishable products to preserve product quality and extend product life.

#### 1.2 Trade in service promotion strategy covers the following action plans

- Providing complete database system for SMEs business decisions
- Establish working unit for trade and investment coordination service between Thailand and the trading partners to facilitate market access for SMEs.
- Facilitate information and media for tourism promotion
- Support and facilitate ASEAN tourism cooperation so that creation of tourist product uniqueness and tourist product differentiation are possible and can be used to attract wider range of tourists and add value to tourist service sector of the region.
- Initiate tourist information center in targeted country or region.

#### 1.3 Investment promotion strategy covers the following action plans

- Improve trade and investment database system to reduce foreign investment risk
- Create working unit directly responsible for trade and investment facilitation

### 2. Improve and Enhance SMEs Competitiveness Strategy

#### 2.1 Research and development facilitation covers the following action plans

- Emphasis on providing market research supports to benefit SMEs for market access
- Facilitate and supports SMEs for quality brand creation and recognition and product development in response to changes in consumer preferences.

- 2.2 Facilitating SMEs industrial clustering covers the following action plans
- Strengthening industrial linkages including supporting industry (backward linkage) and related industry (forward linkage) so that gains from industrial clustering can be utilized to improve SMEs competitiveness.
3. Improving Efficiency and Competitiveness Strategy
- 3.1 Enhance Productivity and efficiency of production by value creation covers the following action plans
- Carefully support bilateral FTA engagement so that benefits from FTA can be fully realized and the negative impacts are properly taken care of by appropriate adjustment mechanism
  - Study and improve SMEs understanding of value chain and global value chain (GVC) concept so that it will enhance Thai SMEs' productivity and competitiveness.
- 3.2 Adjustment and negative impact mitigation strategy covers the following action plans
- Set up/establish SME fund to improve productivity and SME adjustment process to mitigate negative impacts of FTA.
  - Value chain study of sector or specific product to enhance SMEs' capacity building through industrial clustering and productivity improvement.