

Economy of the kingdom of thailand



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Chapter 1: Introduction.

The Kingdom of Thailand is an independent country that lies in the heart of Southeast Asia. Thailand is the worlds 50th largest country in terms of total area with a surface area of approximately 513, 000 km² (198, 000 sq mitters), and the 21st most-populous country, with approximately 64 million people. About 75% of the population is ethnically Thai, 14% is of Chinese origin, and 3% is ethnically Malay; the rest belong to minority groups including Mons, Khmers and various hill tribes. There are approximately 2. 2 million legal and illegal migrants in Thailand. Thailand has also attracted a small number of expatriates from developed countries. The country’s official language is Thai.

As for the Thai economy, it is export-dependent, with exports of goods and services equivalent to over 70% of GDP in 2008. Thailand’s recovery from the 1997-1998 Asian financial crises (which brought a double-digit drop in GDP) relied largely on external demand from the United States and other foreign markets. From 2001-2006, the administration of former Prime

Minister Thaksin embraced a “ dual track” economic policy that combined domestic stimulus programs with Thailand’s traditional promotion of open markets and foreign investment. Real GDP growth strengthened sharply from 2. 2% in 2001 to 7. 1% in 2003 and 6. 3% in 2004. In 2005-2007, economic expansion moderated, averaging 4. 5% to 5. 0% real GDP growth, due to domestic political uncertainty, rising violence in Thailand’s four southernmost provinces, and repercussions from the devastating Indian Ocean tsunami of 2004. Thailand’s economy in 2007 relied heavily on resilient export growth (at a 17. 3% annual rate), particularly in the automobile, petrochemicals, and electronics sectors. Persistent political uncertainty and the global financial crisis in 2008 weakened Thailand’s economic growth by reducing domestic and international demand for both its goods and services (including tourism). Due to minimum exposure to toxic assets, Thai banks have limited direct impact from the global financial crisis. Nonetheless, Thai economic growth slowed to 2. 6% in 2008, with fourth quarter growth dropping below zero. In 2009, the contraction continued. First quarter GDP was down by 7. 1% year-on-year. To offset weak external demand and to shore up confidence, the Abhisit administration introduced two stimulus packages worth \$43. 4 billion. The government projected that the Thai economy would be down 3. 5% for the year but would see positive growth of 2. 5% in 2010.

Roughly 40% of Thailand’s labor force is employed in agriculture (data based on Bank of Thailand.) Rice is the country’s most important crop; Thailand is the largest exporter in the world rice market. Other agricultural commodities produced in significant amounts include fish and fishery products, tapioca,

rubber, corn, and sugar. Exports of processed foods such as canned tuna, canned pineapples, and frozen shrimp are also significant.

As for the old and familiar neighboring country of Thailand, China is the second largest export market and third-largest supplier after Japan. These two neighboring countries had never been encroached to each other; the very well relationship remained in peace and stable. Two developing countries are rising with the same pace, but also compete economically.

China has one of the world's oldest civilizations and has the oldest continuous civilization. It has archaeological evidence dating back over 5,000 years. China was the largest and most advanced civilization for much of recorded history and is viewed as the source of many major inventions. It has also one of the world's oldest written language systems. Historically, China's cultural sphere has extended across East Asia as a whole, with Chinese religion, customs, and writing systems being adapted to varying degrees by neighbors such as Japan, Korea and Vietnam. The People's Republic of China has a land area of about 9.6 million sq km with approximately 1.5 billion population size, and is the third-largest country in the world, next only to Russia and Canada.

Because of China's unstable situation in the 70's of last century, since then a lot of Chinese population was flowing to some other countries for a better shelter; and definitely Thailand was a very sweet one. At that time over 30,000 populations crossed the border of Thailand. They are now part of 14% of Chinese origin.

At the beginning of 80's, the reform and open-up policy were implemented. Since then, a huge amount of cheap Chinese products were exported to oversea countries. Nowadays, there're still over half of the daily products were made in China. Not only the products were exported, but also labor migrants have left China and settled throughout Southeast Asia, seeking better opportunities in difficult times and creating burgeoning and long-standing communities.

Now, China is one of the largest producers and consumers of agricultural products. Over 40% of China's labor force is engaged in agriculture, even though only 10% of the land is suitable for cultivation and agriculture contributes only 13% of China's GDP. China's cropland area is only 75% of the U. S. total, but China still produces about 30% more crops and livestock than the United States because of intensive cultivation, China is among the world's largest producers of rice, corn, wheat, soybeans, vegetables, tea, and pork. Major non-food crops include cotton, other fibers, and oilseeds. China hopes to further increase agricultural production through improved plant stocks, fertilizers, and technology. Incomes for Chinese farmers are stagnating, leading to an increasing wealth gap between the cities and countryside. Government policies that continue to emphasize grain self-sufficiency and the fact that farmers do not own-and cannot buy or sell-the land they work have contributed to this situation. In addition, inadequate port facilities and lack of warehousing and cold storage facilities impede both domestic and international agricultural trade.

China is now one of the most important markets for U. S. exports: in 2008, U. S. exports to China totaled \$71. 5 billion, a 9. 5% increase of \$16. 2 billion

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from 2007. U. S. agricultural exports have increased dramatically, totaling \$12. 2 billion in 2009 and thus making China our fourth-largest agricultural export market. Leading categories include: soybeans (\$7. 3 billion), cotton (\$1. 6 billion), and hides and skins (\$859 million). Export growth continues to be a major driver of China's rapid economic growth.

Here comes our conflict: As the neighbor of supper sized China, Thailand faced double challenge. First of all, by import cheap but quality Chinese products the lessened GPD is shown and China is recently steadily replacing Thailand's first place on exporting rice. Secondly more and more skilled Chinese labor forces are into Thailand, the local unemployment is facing the challenge.

What is going to be the aftermath and what we can do about these becomes the very serious problem for Thailand.

Chapter 2: Situation of the problem.

As we know, Thailand is a very popular country, not only by tourism but also by the minds. Thai people are very conscientious and friendly, may that be the reason why so many western populations would like to move to Thailand for the rest of their lives. Under the capitalism system, Thailand has a GDP worth 8. 5 trillion Baht (on a purchasing power parity (PPP) basis), or USD 627 billion (PPP). This classifies Thailand as the 2nd largest economy in Southeast Asia after Indonesia. Despite this, Thailand ranks midway in the wealth spread in Southeast Asia as it is the 4th richest nation according to GDP per capita, after Singapore, Brunei and Malaysia. Most of Thailand's labor force is working in agriculture. However, the relative contribution of

agriculture to GDP has declined while exports of goods and services have increased. Tourism revenues are on the rise. With the instability surrounding the recent coup and the military rule, however, the GDP growth of Thailand has settled at around 4-5% from previous highs of 5-7% under the previous civilian administration, as investor and consumer confidence has been degraded somewhat due to political uncertainty.

Chinese economic history is quite fancy and interesting. This strong nation had gone through a lot. Even for the modern Chinese economy is still a long story to tell.

The economic history of modern China began with the fall of the Qing Dynasty in 1911. Following the Qing, China underwent a period of instability and disrupted economic activity. Under the Nanjing decade (1927-1937), China advanced several industries, in particular those related to the military, in an effort to catch up with the west and prepare for war with Japan. The Second Sino-Japanese War (1937-1945) and the following Chinese civil war caused the collapse of the Republic of China and formation of the People's Republic of China.

The new ruler of China, Mao Zedong, initially promised to develop “ a socialist alliance with Petit Bourgeois, workers, and nationalist Bourgeois”, but enacted collectivization upon consolidation of this regime.

Collectivization resulted in the success of the first five-year plan, but Mao's second five-year plan, which included the Great Leap forward, did not meet with the same success. A new party faction who supported private plots eventually challenged Mao's economic policy. Unwilling to give up power,

Mao launched the Cultural Revolution, which led to the collapse of the Chinese economy.

Following Mao's death, one of the most senior officials who had advocated private plots in the early 1960s, Deng Xiaoping initiated gradual market reforms that abolished the communes and collectivized industries of Mao, replacing them with the free-market system. Deng's reforms vastly improved the standard of living of the Chinese people, the competitiveness of the Chinese economy, and caused China to become one of the fastest growing and most important economies in the world. It also led to one of the most rapid industrializations in world history. For this achievement he is sometimes known as "The Venerated Deng". As a result of Deng's reforms, China is widely regarded as a returning superpower. 1992 Deng Xiaoping's Southern Tour at the beginning of the year massively boosted foreign direct investment inflows into coastal areas and started a wave of government investment in Shanghai. Record trade and GDP growth and inflation followed.

1993 Zhu Rongji appointed to rein in the overheating economy, this time more selectively than in 1989-91. Growth rates subsided gradually in subsequent years, producing a so-called "soft landing". During the 1990s, living standards continued to rise, as evidenced by the proliferation of consumer durables, especially among the urban population. Continuing FDI inflows helped boost foreign exchange reserves to record heights in the late 1990s. Especially after the publication of the 1998 GDP figures, economists, both in China and abroad, have raised serious doubts about the quality of China's national accounts, which appeared in the late 1990s to overstate economic growth and are now suspected of understating growth. This may

be because the statistical system tends to overestimate output at the trough of the cycle and underestimate output at the peak.

However, the country's first production census discovered at the end of 2005 that GDP has recently been grossly underestimated as a result of a failure to take into account the rapid growth of the services sector. As a result, growth rates for 2003-2005 are now recorded at around 10% per year in real terms.

Despite efforts to cool the overheating economy, the officially recorded GDP growth rate was 11.4% in 2007.

In 2008 the global economic crisis began to reduce China's growth rate. In the face of forecasts that this might drop below the rate at which school leavers can be absorbed by the growing economy (7%-8%) the government decided to pump RMB 4 trillion into the economy in the form of an economic stimulus package consisting largely of investment in fixed infrastructure and human capital.

In 2009 China's GDP growth rate, though lower than the double-digit average of recent years, has held up well, rising from 6.1% year-on-year in the first quarter to 7.7% in the first three quarters of the year. This means that year-on-year GDP growth was around 9% in the second quarter. A similar rate of growth (9%) is expected in the final quarter, ensuring a rate of over 8% for 2009 as a whole.

In Chinese GDP, more than 40% are expected from the export of products; there are over 50% daily products all over the world are MADE IN CHINA. The reason why Chinese products are so competitive is because they are very

cheap and quality. How come the Chinese products are so cheap? Compare with the GDP china's API (annual premium income) is very low, because 1/5 world's population is in China, and this is also the reason why the Chinese products are so cheap; labor force are paid only a little bit of money.

In the contrast, Thailand may not have an impressive GDP, but the API is much higher than China. In the structure of Thailand's GDP over 70% are exporting, but it's not only products also services; which means tourism is still the major income for Thailand. However the amount of products exporting in Thailand is steadily deteriorated. Former merit of Thai export; Rubber and Rice is now slowly losing its first place.

As for human resource exporting; in China there're more than two million graduates will be unemployed every year. Most of them are staying home and doing job hunting, some may find-out a better way by crossing the border to oversea countries. These graduates are fully skilled and they are eager for job, so they may take some unwanted jobs in oversea countries. Nonetheless, potentially they are increasing the unemployment rate in Thailand as well.

Chapter 3: Thailand Economical Crises.

Thailand is a member of AFTA (ASEAN Free Trade Area), which is purpose of Increase ASEAN's competitive edge as a production base in the world market through the elimination, within ASEAN, of tariffs and non-tariff barriers.

Unlike the EU, AFTA does not apply a common external tariff on imported goods. Each ASEAN member may impose tariffs on goods entering from outside ASEAN based on its national schedules. However, for goods

originating within ASEAN, ASEAN members are to apply a tariff rate of 0 to 5 percent (the more recent members of Cambodia, Laos, Myanmar and Vietnam, aka. CMLV countries, were given additional time to implement the reduced tariff rates). This is known as the Common Effective Preferential Tariff (CEPT) scheme.

ASEAN members have the option of excluding products from the CEPT in three cases: 1.) Temporary exclusions; 2.) Sensitive agricultural products; 3.) General exceptions. Temporary exclusions refer to products for which tariffs will ultimately be lowered to 0-5%, but which are being protected temporarily by a delay in tariff reductions. Sensitive agricultural products include commodities such as rice. ASEAN members have until 2010 to reduce the tariff levels to 0-5%.

The AFTA was formed in 1992, after that Thailand economy was increasing rapidly, but in 1997 Thailand suffered the “ Dom Yam Goon crisis”. It was beginning in July 1997, and raised fears of a worldwide economic meltdown due to financial contagion. The crisis started in Thailand with the financial collapse of the Thai baht caused by the decision of the Thai government to float the baht, cutting its peg to the USD, after exhaustive efforts to support it in the face of a severe financial overextension that was in part real estate driven. At the time, Thailand had acquired a burden of foreign debt that made the country effectively bankrupt even before the collapse of its currency. As the crisis spread, most of Southeast Asia and Japan saw slumping currencies, devalued stock markets and other asset prices, and a precipitous rise in private debt.

Such was the scope and the severity of the collapses involved that outside intervention, considered by many as a new kind of colonialism, and became urgently needed. Since the countries melting down were among not only the richest in their region, but in the world, and since hundreds of billions of dollars were at stake, any response to the crisis had to be cooperative and international, in this case through the International Monetary Fund (IMF). The IMF created a series of bailouts (“rescue packages”) for the most affected economies to enable affected nations to avoid default, tying the packages to reforms that were intended to make the restored Asian currency, banking, and financial systems as much like those of the United States and Europe as possible. In other words, the IMF’s support was conditional on a series of drastic economic reforms influenced by neoliberal economic principles called a “structural adjustment package” (SAP). The SAPs called on crisis-struck nations to cut back on government spending to reduce deficits, allow insolvent banks and financial institutions to fail, and aggressively raise interest rates. The reasoning was that these steps would restore confidence in the nations’ fiscal solvency, penalize insolvent companies, and protect currency values. Above all, it was stipulated that IMF-funded capital had to be administered rationally in the future, with no favored parties receiving funds by preference. There were to be adequate government controls set up to supervise all financial activities, ones that were to be independent, in theory, of private interest. Insolvent institutions had to be closed, and insolvency itself had to be clearly defined. In short, exactly the same kinds of financial institutions found in the United States and Europe had to be created in Asia, as a condition for IMF support. In addition, financial systems had to

become “transparent”, that is, provide the kind of reliable financial information used in the West to make sound financial decisions.

However, the greatest criticism of the IMF’s role in the crisis was targeted towards its response. As country after country fell into crisis, many local businesses and governments that had taken out loans in US dollars, which suddenly became much more expensive relative to the local currency which formed their earned income, found themselves unable to pay their creditors. The dynamics of the situation were closely similar to that of the Latin American debt crisis. The effects of the SAPs were mixed and their impact controversial. Critics, however, noted the contractionary nature of these policies, arguing that in a recession, the traditional Keynesian response was to increase government spending, prop up major companies, and lower interest rates. The reasoning was that by stimulating the economy and staving off recession, governments could restore confidence while preventing economic loss. They pointed out that the U. S. government had pursued expansionary policies, such as lowering interest rates, increasing government spending, and cutting taxes, when the United States itself entered a recession in 2001, and arguably the same in the fiscal and monetary policies during the 2008-2009 Global Financial Crisis.

Although such reforms were, in most cases, long needed, the countries most involved ended up undergoing an almost complete political and financial restructuring. They suffered permanent currency devaluations, massive numbers of bankruptcies, and collapses of whole sectors of once-booming economies, real estate busts, high unemployment, and social unrest. For most of the countries involved, IMF intervention has been roundly criticized.

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The role of the International Monetary Fund was so controversial during the crisis that many locals called the financial crisis the “ IMF crisis”. Many commentators in retrospect criticized the IMF for encouraging the developing economies of Asia down the path of “ fast track capitalism”, meaning liberalization of the financial sector (elimination of restrictions on capital flows); maintenance of high domestic interest rates to attract portfolio investment and bank capital; and pegging of the national currency to the dollar to reassure foreign investors against currency risk.

Unfortunately, 2008 is another hard year, but it’s not only for Thailand or Asia, it’s the global economic crisis.

The Global Financial Crisis has been called by leading economists the worst financial crisis since the one related to the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of U. S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Many causes have been proposed, with varying weight assigned by experts. Both market-based and regulatory solutions have been implemented or are under consideration, while significant risks remain for the world economy.

The collapse of a global housing bubble, which peaked in the U. S. in 2006, caused the values of securities tied to housing prices to plummet thereafter, damaging financial institutions globally. Questions regarding bank solvency, declines in credit availability, and damaged investor confidence had an impact on global stock markets, which suffered large losses during 2008. Economies worldwide slowed in late 2008 and early 2009 as credit tightened

and international trade declined. Critics argued that credit rating agencies and investors failed to accurately price the risk involved with mortgage-related financial products, and that governments did not adjust their regulatory practices to address 21st century financial markets. Governments and central banks responded with unprecedented fiscal stimulus, monetary policy expansion, and institutional bailouts.

2008 is a very tough year for Thailand. Not only is the Global Economic Crisis threatening Thai economy, but also the 2008 flu. The flu directly affected Thai tourism, which is the backbone of Thai economy.

However, even the crises are monsters; Thailand is still standing in a very firm place of exporting rice, rubber and tourism. Not only today, but also after decades.

Chapter 4: Compete from China.

Not only Chinese daily products the only stuff competitive from China, but also foods, heavy industry, mineral materials and so on.

In Thailand, Chinese food is one kind of high class treat. It's quite expensive and health. The most famous one could be the Chinese vegetarian.

Vegetarianism is only practiced by a relatively small fraction of the population. Most Chinese vegetarians are Buddhists, following the Buddhist teachings about minimizing suffering. This is also one major reason why the Chinese vegetarian food is quite popular in Thailand. Chinese vegetarian dishes often contain large varieties of vegetables (e. g. Bok Choy, shiitake mushroom, sprouts, corn) and some imitation meat. Such imitation meat is created mostly with soy protein and/or wheat gluten to imitate the texture,

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taste, and appearance of duck, chicken, or pork. Imitation seafood items, made from other vegetable substances such as konjac, are also available.

As for the Chinese industry export, China's machinery manufacturing industry can provide complete sets of large advanced equipment, including large gas turbines, large pump storage groups, and nuclear power sets, ultra-high voltage direct-current transmission and transformer equipment, complete sets of large metallurgical, fertilizer and petro-chemical equipment, urban light rail transport equipment, and new papermaking and textile machinery. Machinery and transportation equipment have been the mainstay products of Chinese exports, as China's leading export sector for successive 11 years from 1996 to 2006. In 2006, the export value of machinery and transportation equipments reached 425 billion US dollars, 28.3 percent more than 2005.

Thermal, hydro and nuclear power industries are the fastest growing of all industrial sectors. At the end of 2004, the installed capacity of generators totaled 440 million kW, and the total generated electricity came to 2, 187 billion kwh, ranking second in the world.

Power grid construction has entered its fastest ever development; main power grids now cover all the cities and most rural areas, with 501-kv grids beginning to replace 220-kv grids for inter-province and inter-region transmission and exchange operations. An international advanced control automation system with computers as the mainstay has been universally adopted, and has proved practical. Now China's power industry has entered a new era featuring large generating units, large power plants, large power

grids, ultra-high voltage and automation. There are several countries such as Thailand requesting China's help and investment for the industrial sector.

China is the third largest country all over the world, and so as the Chinese mineral resource. China is rich in mineral resources, and all the world's known minerals can be found here. To date, geologists have confirmed reserves of 153 different minerals, putting China third in the world in total reserves. The reserves of the major mineral resources, such as coal, iron, copper, aluminum, stibium, molybdenum, manganese, tin, lead, zinc and mercury, are in the world's front rank. China's coal reserves total 1,007.1 billion tons, mainly distributed in north China, with Shanxi Province and the Inner Mongolia Autonomous Region taking the lead. China's 46.35 billion tons of iron ore are mainly distributed in northeast, north and southwest China. The country also abounds in petroleum, natural gas, oil shale, phosphorus and sulphur. Petroleum reserves are mainly found in the northwest, northeast and north China, as well as in the continental shelves of east China. The national reserves of rare earth metals far exceed the combined total for the rest of the world.

Rubber and rice used to be Thailand's advantaged exports. However for the last 10 years, China is chasing Thailand's heel. Rubber is an important industry for economy all around the world. Its price is usually influenced by the world's oil price which is feature in changing in rubber price. China, Thailand, Indonesia and Malaysia (rubber garden about 200 hectares, output about 3 million tons) are the most importance producer and exporter for rubber market of the world. The amount of rubber they have produced account for 70%-80% of total world amount on average.

Because the rubber is an important industrial crop in these countries, the rubber price has been going up due to increasing in demand for the rubber. These result in an expansion in production area which produces effect on the higher level of rubber output.

The information released by the Chinese Ministry of Agriculture, the output of crude rubber is about 3.2 to 3.3 million tons in 2007 more than previous year and the annual growth is about 5%. This satisfying outcome was caused by the assistance of Chinese government in giving the better breed to the farmer.

Most of rubber outputs are profuse in the second and the third quarter in each year, particularly in the southern part of China which is the largest source of domestic rubber production, because that period is humid season in Southern China. There might be a little decreasing in rubber price in that period because of the increasing in supply of rubber.

Since the Chinese currency continued appreciation and the demand for rubber was increase, the export price was going up to 2.10 U. S. dollar per kilogram in March on 2007. Why does the price increase in international rubber market? There are two possible reasons. The first one is because some of the primary countries (Thailand and Indonesia) in producing rubber were affected by unfavorable weather, so the output was negatively affected. The second explanation is derived from the increasing demand for rubber in American and China itself, because the price of rubber was going up for a while, so the price was not expected to increase so much in the near future.

On October 2008, the domestic price of rubber was going down so rapidly. It decreased to 8 RMB per kilogram in 20 days time. However before that, the purchasing price of fresh rubber is around 15RMB per kilogram and the cost of production is about 5 RMB per kilogram. The loss of the rubber profit is about 100% at that time. The cooperative of Chinese rubber farmers express that Thailand is the foremost partner of commerce in China because of the economic crisis from the U. S, so the exporter was very careful in it. Chinese Ministry of Agriculture adopts the countermeasures which analyze the tendency of international market in the future and establish the solving measures. It has made a commitment with financial institutions to extend the loan repayment period for rubber farmers. This hopefully enables the farmers could reduce their burden associated with rubber production. In addition, the Rubber Association of Asia wants to resolve the problem of lower the price of rubber. They decided to stop the production for six month so as to reduce the amount of rubber output and this enhanced the price level. They also suggested Chinese government to add the financial aid but don't interpose the price of rubber. If the price continue going down, the farmer may choose chopping the rubber trees to replant other crops and many farmers had already started to chop the rubber tree and sealing it. Furthermore, the farmers confronted with immense pressure from synthetic rubber, many rubber gardens change to replant other crops.

Many other Chinese resources and products are also very much competitive, especially for Thailand. Thailand doesn't have many resources to use, thus if Thailand still want to improve the GDP they will have to import goods from

China. Why China? The reason is not only the cheap price, but also the very convenient geographical location.

Chapter 5: Solution of Thai-na Intersect.

There are several solutions for avoid the incoming challenge and further crises. One of the most important progresses for the Thai-na trading is the China-Thailand FTA. The China-Thailand FTA was signed in June 2003 and came into effect four months later in October 2003. It is an “ early harvest agreement” on farm trade alone, whereby both countries opened their agricultural markets before the broader China-ASEAN FTA comes into force in 2010. Under the deal, tariffs for 188 types of fruits and vegetables were cut to zero overnight.

The China-Thailand FTA has had very strong impacts in Thailand, amply documented by NGOs, farmers’ groups, academics and the press. Many Thai garlic, longan and other fruit and vegetable producers, especially in the North, lost their livelihoods because they could not compete against the cheap flood of Chinese imports. In fact, despite government reassurances, only Thai cassava exports went up. Investigations showed that Thai produce entering China was left to rot at point of entry, by local warehouse operators, so that it could not actually be commercialized.

Cheap Chinese fruits and vegetables, in the meanwhile, were criticized by Thai people for their high pesticide residue levels. But this actually led the two governments to adopt joint private food safety standards (Thai-China GAP), providing yet another boost to corporate farming and further concentration.

In all, the China-Thailand FTA has not benefited small farmers on either side of the border. It has only been favorable for businessmen who control the trade and are able to use it to expand their contract farming operations, such as Thailand's (ethnic Chinese-owned) Charoen Pokphand Group.

After the formation of the FTA, Thailand's exports to China are likely to continue to grow over the remainder as massive stimulus spending by Beijing is showing clear signs of