ABSTRACT

After 1970 a considerable amount of research effort has been devoted to evaluate the impact of trade policies in Thailand. The most widely used methodologies are effective protection analysis and domestic resource cost analysis. The evidences demonstrated that the structure of incentives has been biased in favour of import-competing products since the late 1960s. However both techniques focus on the impact of protection at the industry level. Moreover both base on partial equilibrium framework which do not take directly the relative nature of protection into consideration.

There however might be some diverse and frequent conflicts among industrial and trade policy. Thus it is worthwhile to analyze the effects of trade policies in the general equilibrium context. If we consider the impact of measures to promote industrialization on the overall structure of relative incentive, it is possible that the intended effects of trade policies to protect or promote one particular type of industry may be different from the net effect. For example, import protection raises the absolute prices of import substitutes. If substitution in demand and supply to and from importables is possible, the relative price changes induced may mean that the protection of importables is achieved by the implicit taxing of other domestic activities besides imports. The recent approach, so called incidence analysis, allows us

to highlight the ways in which these burdens of trade interventions are shifted onto other groups of producers and consumers, especially the case of Thailand when trade interventions are to promote import substitution and export activities simultaneously.

By applying this approach to the Thai economy, the results of this study are as follows,

1) Protection of import substitute activities has imposed a significant burden on the export sector. The share of incidence borne by the traditional export sector are 53 percent, 42 percent and 34 percent in the subperiods January 1962 - December 1971, January 1972 - November 1984, and December 1984 - December 1987, respectively. While the export sector as a whole bears the implicit tax from protection by the amount of 33 percent, 22 percent and 17 percent in the first, second and third subperiods, respectively. If we confine export activities to non-traditional items, the implicit tax which is shifted is less, that is, 15 percent for the second subperiod and 9 percent in the last subperiod. The reason is that there are likely to be less sector-specific factors in the non-traditional sector than the traditional one.

However it is found that the shifting of implicit tax from import substitute sector to export activities has been reducing through time.

2) By examining the relative price effects of the

trade policy interventions, we found that the net effects are less than the intended effects. The study applies sensitivity analysis to find out different values for the true tariffs and true subsidies. The finding is that true protection is likely to be less than nominal protection and if the overall objective of the economy is export promotion then the government must provide assistances to the export sector at a rate higher than the nominal import tariff.

3) Theory informs us that there might be some income transfer arising from import protection. Certainly, the ones who pay for protection are not the importers. The study calculates the income transfer matrix of Thailand employing the information of the structure of the Thai economy and the true tariff rate. It is observed that only producers of import-competeing products and consumers of exports gain from the protection. Exporters, consumers of importables and producers of home goods are the ones who pay for protection in Thailand.

In conclusion, if the strategic objective of policy in Thailand is to provide greater emphasis on export promotion, then the implication of this analysis for policy reform are clear. In order to attract resources into the export sector, government must either reduce current disincentives and/or provide additional incentives to offset the current disincentives, that is, import liberalization.