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Implementing the 2010 ASEAN-China FTA: A Thai logistics perspective

Ruth Banomyong[1], *Thananya Wasusri*[2*], *Duangpun Kritchanchai*[3]

1 Department of International Business, Logistics & Transport,
Thammasat University, THAILAND
Email: Banomyong@thammasat.net

[2]Logistics Management Program, Graduate School of Management and Innovation,
King Mongkut's University of Technology Thonburi, THAILAND
Email: thananya.was@kmutt.ac.th

[3]Department of Industrial Engineering, Faculty of Engineering, Mahidol University,
THAILAND
Email: egdkc@mahidol.ac.th

ABSTRACT

ASEAN member countries are currently negotiating a Free Trade Agreement with China where tariffs between both China and ASEAN will be eliminated by 2010. Thailand as a founding member of ASEAN has been engaged in deeper negotiation with China and free trade between both countries has been achieved for certain commodities under what is known as the 'Early Harvest' (EH) scheme since October 2004.

Logistics is a derived demand of trade and any free trade area will greatly influence logistics flows. Export and import trade flows between Thailand and China have been affected as a result of the EH scheme. As a consequence, logistics infrastructure must be upgraded in order to better respond to these changes. The selection of routes, modes and means of transport has been affected based on goods traded between both countries.

The purpose of this paper is to describe logistics issues that have arisen while the 2010 ASEAN-China Free Trade Agreement is negotiated. Thailand is currently the ASEAN member state that is at the most advanced stage of free trade negotiation with China and the Kunming-Bangkok corridor is chosen as an illustrative case study.

Key words: Free Trade Area, China, Thailand, ASEAN, logistics

INTRODUCTION

The developing economies of ASEAN have shown that they have become increasingly linked into the global economy through trade, investment credit, and technology. In recognition of the benefits of regional integration, the countries of the ASEAN are co-operating to implement a number of initiatives to reduce physical and non-physical barriers

* Corresponding author

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to trade and transport (Banomyong, 2002). This co-operation is now extending to China where ASEAN is currently negotiating a Free Trade Agreement (FTA) for the year 2010. Thailand as a founding member of ASEAN has been engaged in deeper negotiation with China and free trade between both countries has been achieved for certain commodities under what is known as the 'Early Harvest' (EH) scheme since October 2004.

The purpose of this paper is to describe logistics issues that have arisen while the 2010 ASEAN-China Free Trade Agreement is negotiated. Thailand is currently the ASEAN member state that is at the most advanced stage of free trade negotiation with China and the Kunming-Bangkok corridor is chosen as an illustrative case study.

BACKGROUND

The implementation of the EH scheme in October 2004 has increased trade imbalance between both countries as shown in table 1. Another issue that needs to be noticed is that the amount of trade between both countries has constantly been on the increase since 2000, even if Thailand is at a disadvantage. It can be deducted that trade between Thailand and China will increase even more after the full implementation of the ASEAN-China FTA.

Table 1: Trade statistics between Thailand and China

Description	Amount (Million Baht)				
	2000	2001	2002	2003	2004
Import from China	135,699.85	165,060.21	211,706.56	251,071.50	329,771.46
Export to China	113,278.08	127,205.17	152,591.67	236,057.90	285,917.84

Source: Thai Ministry of Commerce (2005)

Thailand considers itself as a logistics platform for Indochina and southern China. This belief is based on the assumption that provinces in southern China such as Yunnan need better access to the sea and that ASEAN member countries must utilise Thailand's as a gateway to get into southern China. Table 2 and 3 describes the value of transit trade between ASEAN and China via Thailand.

Table 2: Transit goods from ASEAN to China via Thailand

Description	Amount of trade in 2004 (Million Baht)	
	From ASEAN via Thailand	From Thailand to China
Chemical	74,187.77	14,557.55
Electrical appliances	13,721.15	4,604.65
Computer and parts	62,950.63	61,010.18
Machinery	28,059.75	4,333.86
Plastics and Plastics products	8,696.25	22,760.35
Iron and steel/steel products	13,340.71	5,062.33
Electrical circuit	64,886.07	9,086.25
Total	**265,842.33**	**121,415.17**

Source: Thai Ministry of Commerce (2005)

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Table 3: Transit goods from China to ASEAN via Thailand

Description	Amount of trade in 2004 (Million Baht)	
	From China to Thailand	Via Thailand to ASEAN
Chemical	23,280.47	41,293.82
Electrical appliances	11,508.13	17,279.30
Computer and parts	48,529.52	92,664.98
Machinery	22,410.70	17,455.53
Plastics and Plastics products	4,669.20	28,217.17
Iron and steel/steel products	11,582.88	30,706.45
Electrical circuit	8,111.10	42,741.12
Total	**130,092.00**	**270,358.37**

Source: Thai Ministry of Commerce (2005)

METHODOLOGY & FINDINGS

Kunming the capital of Yunnan province has been earmarked as the main logistics gateway for China with countries in Southeast Asia such as Thailand (Bezy, 1996; Banomyong, 1999). Kunming has a population of about 5 million inhabitants, and is located at an elevation of 1891 metres. Currently, there exist two main transport modes that links Yunnan province in southern China with Thailand. These modes are inland water transport via the Lancang or Mekong River and road transport via Myanmar or Lao PDR as illustrated in figure 1. Therefore, based on the assumption that the Kunming in Yunnan will be the main logistics gateway for Thai and ASEAN products into China, an exploratory study in China was therefore conducted by visiting Yunnan's major logistics gateways in December 2004.

River transport on the Lancang-Mekong River

Yunjinghong city (see figure 1) is situated in the south of Yunnan province with an area of 20,000 square km. and a population of 870,000 people, it is located at around 700 km from Kunming. In order to transport goods from Yunnan province to Thailand by inland waterway along the Lancang River a number of river ports such as Jinghong, Guanlei and Galanba ports are used. Currently the main port for river transport is Jinghong port. According to officials at Jinghong Port, about 20 vessels call at this port every day and there are currently around 109 registered vessels plying their trade on the Mekong River. It is interesting to note that all these vessels are registered in China. It takes approximately one day (12 hours) to navigate vessels down the Mekong River to Thailand but during the dry season river navigation is difficult. Most of the vessels navigating on the Mekong River have a size of about 300 DWT. However, Jinghong port is only in service for 10 months in a year with a throughput estimated at around 220,000 tons/year. In 2003, 161,068 tons of cargo was transported from Jinghong port to other countries on the Mekong River, but more than 95% of those goods were destined for Thailand. The main exports originating from Jinghong port to Thailand are apples, plums, electrical appliances and construction materials. Goods imported from Thailand via Jinghong port are longans (a type of fruit), tires and elastic rubber band. Jinghong port has been considered as a key

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cargo port but now the port has expanded its facility to include passenger transport. Jinghong port is currently shifting its emphasis from freight to tourists with estimates of about 400,000 passenger/year and only 200,000 tons/year for freight.

Figure 1: Kunming-Bangkok: A logistics road

Source: The Authors

Guanlei port is being developed as the main cargo port on the Lancang or Mekong River. Guanlei port is currently being upgraded to handle containers traffic. Reefer and pipeline facilities are also in the making for perishable products and liquid-type goods such as petroleum and chemical products. Guanlei is expected to handle cargo shipment up to 400,000 tons/year. Currently most of the Chinese goods destined for the ASEAN market are loaded at this port as Jinghong port is shifting its emphasis to passengers and tourism.

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Road between southern China and Thailand

The Kunming-Bangkok corridor is part of the Asian Development Bank (ADB) flagship program to implement a North-South economic corridor in the region. The objectives of this program is to facilitate trade and development between and among Cambodia, Laos, Myanmar, Thailand, Vietnam and Yunnan province in China; to reduce transport cost, and move freight and passengers more efficiently. By 2012, the completed all-weather roads are expected to allow smooth and efficient travel along this North-South regional axe.

A major goal of the Kunming-Bangkok corridor is to establish cross-country road networks and cross border agreements to simplify customs clearance procedures. Given the good roads between Kunming to Beijing and from Bangkok to Singapore, this North-South corridor will also mean smooth linkages from the capital of China to the tip of the Malay Peninsula. The ADB has identified the Chiang Rai-Kunming via Laos and via Myanmar as a high priority project that must be completed as soon as possible.

This North South corridor[1] consists of several links:

- A 198-km, four lane expressway just south of Kunming to Yuanjiang.
- A 216-km expressway from Yuanjiang to Mohei.
- Another link is an existing highway from Mohei to Boten on the Lao border
- The Lao route known as national road number 3 east connects Boten with Houaxay on the border with Thailand. This highway via Laos is targeted for completion by early 2007.
- The Myanmar route is known as road number 3 west and connects Thalor on the Chinese border with Mongla and Tachilek on the border with Thailand.

Currently, many sections of the road on the corridor are impassable during the rainy season. Floods do cut-off many sections of the corridor in Laos for at least four months a year. The Myanmar section of the corridor is subject to the uncertainties of the political situation in country.

Thalor is a border post between Yunnan province and Myanmar; however, this border post has not been included as a transit node even though this route via Myanmar is the shortest to Thailand. In order to cross this border post, dedicated border trucks are needed as trucks may not use this crossing to go into Thailand via Myanmar. These cross-border trucks charges up to 350 Yuan per border crossing, which consists of 100 Yuan for transportation and 250 Yuan for the loading and unloading. The volume of goods that is currently crossing this border outpost is relatively limited with the majority of goods being consumer products from Thailand and not goods from China itself. Most Chinese goods prefer the river route or the route via Laos.

1 A full description of the North-South corridor project can be accessed at: www.adb.org/GMS/Projects/devmatrix.asp?fl=1

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From the authors' field interviews it was discovered that the majority of goods in transit between Thailand and Yunnan province are mostly cheap consumer products with a relatively low and stable demand. At the same time, tropical fruit exported from Thailand are almost all destined for Guangzhou in Canton province where the most utilised mode of transport is sea transport from Bangkok or Laem Chabang deep sea port in Thailand to the Port of Hong Kong or other ports in the Pearl River delta. Industrial goods utilised in Chinese heavy industries are usually shipped to Shanghai or Dalian sea ports from the same ports in Thailand.

In retrospect, the assumption that Yunnan province is going to become a major logistics gateway for Thai or even ASEAN product into China may be a bit over optimistic as agricultural and higher value products from Thailand or other ASEAN countries to China are mostly directed to Guangzhou and Shanghai respectively, while the transit of goods via Laos or Myanmar is relatively minimal in terms of volume and product variety.

CONCLUSION

This paper has tried to describe some of the logistics issues currently happening within the ASEAN-China 2010 FTA. The findings are still at an embryonic stage however they clearly show that there is a very clear pattern that goods destined for or coming from the Chinese market will not necessarily transit via Thailand and southern China. Transit trade along this North-South corridor is currently limited to consumer products and a limited number of industrial goods such as rubber or petrochemicals goods.

Trade and investment initiatives such as the ASEAN-China FTA or the ADB led Greater Mekong Mekong Sub-region program require closer co-ordination of logistics infrastructure. This implies the removal of barriers so as to facilitate freight flows. An interconnected logistics infrastructure network can accelerate trade and introduce efficient transport and communication facilities between ASEAN and China. As an economic sector, logistics is an essential contributory ingredient to international competitiveness. Logistics infrastructure need to be upgraded in order to better respond to traders' need in both regions (ESCAP, 1994).

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