

Trade Creation and Trade Diversion Analysis Between Thailand and Organization of the Islamic Cooperation (OIC) Countries

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Abstract

The research objects to identify the goods that are likely to be successful in trade creation between Thailand and Organization of Islamic Cooperation (OIC) countries. Thai products directory which possess competitive advantages for exporting to the OIC are introduced by using Wisarn's RCA Matching Approach. This study used data derived from Trade Map between 2016 and 2018 developed by The International Trade Centre UNCTAD/WTO (ITC). This consists of trading information between Thailand and 57 OIC trading partner nations. The results showed that 189 Thai exporting goods for OIC countries are needed to be promoted as it is 63% of the top 300 Thai exporting goods. The proportion of goods needed to be promoted for OIC is higher than those for RCEP. This reflected the potential for market expansion in the future, especially the fewer MII values of trading partners, the higher chance for Thailand's trading. The benefit of importing more goods from Thailand will be greater owing to its low level of Import Intensity Index. This can be inferred that the OIC countries have imported fewer goods from Thailand than from the other countries, so the trading opportunities for Thailand can be greater.

1. Introduction

Thailand is counted as a compact-size country when compared with the others. Due to its size, it is impossible for Thailand to play an important role in price setting in the global market but, passively, a price-taker instead. This kingdom has supplied a wide variety of products globally despite a handful quantity of each product in comparison with the world productivity. Since an exporting business is one of Thailand's economic drives, planning for Halaal product export can be another way to increase its income and play a vital role in economic development.

Thailand has opened its economic system for 30 years to boost its economy resulting in a notable reputation for exporting activity. Trading encouragement to Muslim countries is crucial in spite of the fact that Thailand is a Non-Muslim dominant country. However, its role in the global market remains neutral. Thailand has been acquainted with Muslim lifestyles for ages. As a result, this country was one of the five countries¹ that have been granted an observer status at the conference of the Organization of Islamic Cooperation (OIC). This can be a fresh start for Thailand's export section when compared with the other non-Muslim countries. Therefore, expanding its wings of exporting business to the OIC countries can strategically drive the country's economy.

2. Objectives

The objective is to identify the goods that are likely to be successful in trade creation between Thailand and OIC countries by presenting Thailand's prominent products in comparison with the other OIC importing products that benefit from global trading.

¹ Five observer countries included Bosnia and Herzegovina (1994) Central African Republic (1996) Kingdom of Thailand (1998) Russian Federation (2005), and the Republic of Cyprus (1979). According to researcher's knowledge base, Dr. Surin Pitsuwan played a crucial role in taking Thailand to participate in OIC as an observer.

3. Scope of Research

Research scope includes data derived from Trade Map between 2016 and 2018 developed by The International Trade Centre UNCTAD/WTO (ITC). This consists of trading information between Thailand and 57 OIC trading partner nations.

4. Methodology

David Ricardo's Comparative Advantage theory, the foundation of the international trading principle, has been applied in this research. It includes the study of comparative advantages and comparative disadvantages of exporting countries. With this theory, those trading partners, hence, will reap a windfall from trade gaining. Moreover, if the importing countries lower their tax bars or other difficulties incurred from trade, the trading volume and value can enhance the trade creation.

According to the mentioned theory above, the Revealed Comparative Advantage Index (RCA) together with Trade Intensity Index (TII) has been used to generate Revealed Comparative Export Advantage (RCAX) and Revealed Comparative Import Advantage (RCAM). If RCAX and RCAM values are more than 1, both trading partners will benefit from trade and trade creation.

Sattayanuwat's formulas (2015) have been applied by matching Thailand's RCAX and its trading partners' RCAM as followed.

$$RCAX_{Th} = \frac{\frac{X_{TH,i}}{X_{TH}}}{\frac{X_{W,i}}{X_W}}$$

$X_{TH,i}$ and $X_{W,i}$ are the values of the exported product "i" from "Thailand" and "the World", respectively.

X_{TH} and X_W are the total export values from "Thailand" and "the World", respectively.

$$RCAM_{Partner} = \frac{\frac{M_{Partner,i}}{M_{Partner}}}{\frac{M_{W,i}}{M_W}}$$

$M_{Partner,i}$ and $M_{W,i}$ are the values of the imported product "i" of "Trading Partner" and "the World", respectively.

$M_{Partner}$ and M_W are the total import values of "Trading Partner" and "the World", respectively.

After matching Thailand's comparative export advantageous goods with $RCAX > 1$ and OIC partners' comparative import advantageous goods with $RCAM_{Partner} > 1$, this resulted in a number of goods included in trade creation between Thailand and its trading partners.

After the list of goods had been obtained, Trade Intensity Index (TII) was generated through Import Intensity Index (MII). This can be categorized into two types: lists of highly imported goods in comparison with the global markets by trading partners ($MII > 1$) and lists of least imported goods in comparison with the global markets ($MII < 1$). The formula can be generated as followed.

$$MII_Partner = \frac{\frac{M_{Partner,TH,i}}{M_{Partner,W,i}}}{\frac{M_{W,TH,i}}{M_{W,W,i}}}$$

$M_{Partner,TH,i}$ and $M_{W,TH,i}$ are the value of imported products “i” from Thailand by “trading partners” and “global markets”, respectively.

$M_{Partner,W,i}$ and $M_{W,W,i}$ are the value of imported products “i” from the global markets by “trading partners” and “global markets”, respectively.

5. Research Results

The researcher has scanned the top 300 exporting products of Thailand to the global markets from the Harmonized System Code (HS code) 6 digit between 2016 and 2018. These 300 product lines accounted to be 80% of the total exporting value. From 2016 to 2017, 247 product lines were classified as exporting advantages with the value of $RCAX_TH > 1$, and these had been increasing to 254 product lines in 2018, respectively.

After including those comparative imported advantageous goods with $RCAM_Partner > 1$ and Import Intensity Index, the results can be generated as followed.

Table 1: Number of goods generated by OIC countries from 2016 to 2018.

No.	Countries	RCAX_Th > 1 & RCAM_OiCi > 1 (2016-2018)	MII_Partner < 1 (2018)	MII_Partner > 1 (2018)
South East Asian Countries				
1	BRUNEI-DARUSSALAM	63	42 (66.7%)	21
2	Republic of INDONESIA	76	17 (22.4%)	59
3	MALAYSIA	79	15 (19.0%)	64
Middle East Countries				
1	Islamic Republic of IRAN	55	54 (98.2%)	1
2	Republic of IRAQ	64	63 (98.4%)	1
3	Hashemite Kingdom of JORDAN	50	47 (94.0%)	3
4	Republic of LEBANON	53	42 (79.2%)	11
5	State of PALESTINE	66	64 (97.0%)	2
6	SYRIAN Arab Republic	59	53 (89.8%)	6
7	Republic of YEMEN	63	56 (88.9%)	7
South Asian Countries				
1	Islamic Republic of AFGHANISTAN	21	21 (100.0%)	0
2	People's Republic of BANGLADESH	49	28 (57.1%)	21
3	Republic of MALDIVES	56	28 (50.0%)	28
4	Islamic Republic of PAKISTAN	51	32 (62.7%)	19

No.	Countries	RCAX_Th > 1 & RCAM_OiCi > 1 (2016-2018)	MII_Partner< 1 (2018)	MII_Partner> 1 (2018)
Central Asian Countries and Turkey				
1	Republic of AZERBAIJAN	60	57 (95.0%)	3
2	Republic of KAZAKHSTAN	62	62 (100.0%)	0
3	KYRGYZ Republic	57	57 (100.0%)	0
4	Republic of TAJIKISTAN	49	49 (100.0%)	0
5	Republic of TURKMENISTAN	66	64 (97.0%)	2
6	Republic of UZBEKISTAN	60	59 (98.3%)	1
7	Republic of TURKEY	74	64 (86.5%)	10
Countries in Other Asian Regions				
1	Kingdom of BAHRAIN	61	43 (70.5%)	18
2	State of KUWAIT	57	46 (80.7%)	11
3	Sultanate of OMAN	65	54 (83.1%)	11
4	State of QATAR	49	38 (77.6%)	11
5	Kingdom of SAUDI ARABIA	59	35 (59.3%)	24
6	State of the UNITED ARAB EMIRATES	51	27 (52.9%)	24
European Countries				
1	Republic of ALBANIA	50	50 (100.0%)	0
South American Region Countries				
1	Republic of GUYANA	53	48 (90.6%)	5
2	Republic of SURINAME	52	48 (92.3%)	4
African Countries				
1	People's Democratic Republic of ALGERIA	75	69 (92.0%)	6
2	Republic of BENIN	44	38 (86.4%)	6
3	BURKINA-FASO	44	40 (90.9%)	4
4	Republic of CAMEROON	65	57 (87.7%)	8
5	Republic of CHAD	51	49 (96.1%)	2
6	Union of the COMOROS	40	38 (95.0%)	2
7	Republic of COTE D'IVOIRE	59	50 (84.7%)	9
8	Republic of DJIBOUTI	63	53 (84.1%)	10
9	Arab Republic of EGYPT	57	39 (68.4%)	18
10	Republic of GABON	59	54 (91.5%)	5
11	Republic of the GAMBIA	28	25 (89.3%)	3
12	Republic of GUINEA	64	60 (93.8%)	4
13	Republic of GUINEA-BISSAU	41	40 (97.6%)	1
14	Great Socialist People's LIBYAN ARAB JAMAHIRIYA	56	54 (96.4%)	2

No.	Countries	RCAX_Th > 1 & RCAM_OiCi > 1 (2016-2018)	MII_Partner< 1 (2018)	MII_Partner> 1 (2018)
15	Republic of MALI	44	43 (97.7%)	1
16	Islamic Republic of MAURITANIA	40	37 (92.5%)	3
17	Kingdom of MOROCCO	67	64 (95.5%)	3
18	Republic of MOZAMBIQUE	55	50 (90.9%)	5
19	Republic of NIGER	43	40 (93.0%)	3
20	Federal Republic of NIGERIA	57	50 (87.7%)	7
21	Republic of SENEGAL	53	49 (92.5%)	4
22	Republic of SIERRA LEONE	75	68 (90.7%)	7
23	Republic of SOMALIA	47	44 (93.6%)	3
24	Republic of the SUDAN	68	62 (91.2%)	6
25	Republic of TOGO	55	45 (81.8%)	10
26	Republic of TUNISIA	65	57 (87.7%)	8
27	Republic of UGANDA	59	50 (84.7%)	9

Source: These results have been calculated by the researcher and her crews. (Lists of the product lines generated by countries had been included in the appendix.)

After obtaining the results, there are two crucial points to be discussed as followed.

- (1) It is found that 189 Thai exporting goods for OIC countries are needed to be promoted as it is 63% of the top 300 Thai exporting goods when compared with 148 items that needed to be promoted with RCEP countries, 49% (Thailand Development Research Institute, 2015).

Regional Comprehensive Economic Partnership Countries (RCEP) consist of ten Asian countries plus China, India, Japan, South Korea, Australia, and New Zealand. Hence, the proportion of goods needed to be promoted for OIC is higher than those for RCEP. This reflected the potential for market expansion in the future, especially the fewer MII values of trading partners, the higher chance for Thailand's trading.

Table 2: The Comparison of the number of goods that can be involved in trade creation between OIC and RCEP countries

Country groups	Number of goods
57 OIC Countries	189 goods (63%)
	Averagely, 56 goods per country
16 RCEP Countries, Thailand Inclusive	148 goods (49%)

Source: Study results by the researchers and her co-researchers and Thailand Development Research Institute, 2015)

- (2) Averagely, a number of goods involved in trade creation were 56 items ranging between 21 and 29 items. Moreover, the goods with few imported ranged between 15 and 64 items equivalent to the percentage of goods that needed to be promoted from 19 to 100. The results can be classified as followed.

- a. The countries with the fewest imported goods were the Islamic Republic of Afghanistan with 21 items making up 100% of the lowest number of trading activities while Malaysia imported 79 items making up 19% of potential goods that needed to be promoted.
- b. The countries with the lowest imported activities are Afghanistan, Kazakhstan, Kyrgyz, Tajikistan, and Albania.
- c. Averagely, every continent had a low number of trading activities with Thailand, especially the four continents as followed.
- For Middle East Continent, the number of imported goods from Thailand ranged between 50 and 66 items, so 79%-98% of Thai exported goods can be promoted.
 - For Latin America Continent, Guyana and Suriname had imported 53 and 52 items, respectively, so 90% and 92% of exported goods can be promoted.
 - Most countries in Central Asia and Turkey imported very few goods from Thailand, 49-74 items, so 86% to 100% of Thai goods can be promoted.
 - Afghanistan in South Asia imported 21 items, so 100% of Thai goods can be promoted.
 - The largest number of OIC countries have situated in African Continent, with 27 countries. The range of Thai exported goods was between 28 and 75 items, so 68% to 97% of Thai exported goods can be promoted.

Table 3: Range of exporting promoted goods from Thailand and percentage of goods needed to be promoted.

Continents (Number of Countries)	Range of Number RCAX_Th > 1 & RCAM_OiCi > 1 (2016-2018)	Range of Percentage MII_Partner > 1 (2018)
Southeast Asia (3)	[63, 79]	[19%, 66%]
Middle East (7)	[50, 66]	[79%, 98%]
South Asia (4)	[21, 56]	[50%, 100%]
Central Asia and Turkey (7)	[49, 74]	[86%, 100%]
Other Asian Countries (6)	[49, 65]	[52%, 83%]
Europe (ALBANIA) (1)	50	100%
Latin America (2)	[52, 53]	[90%, 92%]
Africa (27)	[28, 75]	[68%, 97%]

Source: Concluded and calculated from the table 1 by the researcher and her co-researchers

To conclude, the chance of oversea market expansion can benefit both OIC countries and Thailand who has comparative advantage on exporting those goods. Additionally, the benefit of importing more goods from Thailand will be greater owing to its low level of Import Intensity Index. This can be inferred that the OIC countries have imported fewer goods from Thailand than from the other countries, so the trading opportunities for Thailand can be greater.

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Biography:

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