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February 2, 2009

Congressional Research Service

Report RS21478

Thailand-U.S. Economic Relations: An Overview

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January 23, 2006

Abstract. Thailand is a key U.S. ally in the international war against terrorism and is an important U.S. economic partner in Southeast Asia. Thailand continues to rebuild its economy after the debilitating effects of the 1997-1998 Asian financial crisis. In October 2003, the United States and Thailand announced their intent to negotiate a free trade agreement (FTA). Six rounds of negotiations have been held. A number of issues remain to be resolved. This report summarizes CRS report RS32314, U.S.-Thailand Free Trade Agreement Negotiations.

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CRS Report for Congress

Received through the CRS Web

Thailand-U.S. Economic Relations: An Overview

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Summary

Thailand is a key U.S. ally in the international war against terrorism and is an important U.S. economic partner in Southeast Asia. Thailand continues to rebuild its economy after the debilitating effects of the 1997-1998 Asian financial crisis. In October 2003, the United States and Thailand announced their intent to negotiate a free trade agreement (FTA). Six rounds of negotiations have been held. A number of issues remain to be resolved. This report summarizes CRS Report RL32314, *U.S.-Thailand Free Trade Agreement Negotiations*, by Raymond J. Hearn and Wayne M. Morrison, and will be revised as events warrant.

The United States and Thailand have maintained ties since 1833 and have enjoyed close relations since the end of World War II, cooperating in a number of areas, including defense and security, countering illegal narcotics trafficking, trade liberalization, and, more recently, combating international terrorism. Economic issues play a major role in U.S.-Thailand relations, and thus, are of concern to Congress.¹

Thailand's Recovery from the 1997 Asian Financial Crisis

Thailand was severely affected by the Asian Financial Crisis, which hit the Thai economy in July 1997 and subsequently affected several other East Asian economies. The economic crisis in Thailand was characterized by a significant depreciation of its currency (the baht), depletion of nearly all of Thailand's foreign exchange reserves, a decline in the stock market, bankruptcies among a number of major Thai banks and corporations, and a sharp deterioration of property prices. The combination of these shocks led to a sharp economic downturn. Ten years prior to the 1997 crisis, Thailand had been one of the world's fastest growing economies. Between 1990 and 1996, gross domestic product (GDP) averaged 8.6%, fueled in large part by rapid export growth. However, in 1998, GDP fell by 10.5% while exports and imports dropped by 6.7% and 33.0%, respectively,

¹ For a comprehensive discussion of U.S.-Thai relations, see CRS Report RL32593, *Thailand: Background and U.S. Relations*, by Emma Chanlett-Avery.

over 1997 levels (see **Table 1**). In addition, the unemployment rate rose from 3.2% in 1997 to 7.3% in 1998, and living standards (measured according to per capita GDP measured on a purchasing power parity basis, plummeted by 11%.²

Thailand's economy was stabilized by a \$17.2 billion loan from the International Monetary Fund. Real GDP grew by 4.4% in 1999 and by 4.8% in 2000, but slowed to 2.2% in 2001. Public dissatisfaction in Thailand with the way the government was handling economic restructuring brought about the election of a new coalition government in 2001 (headed by the Thai Rak Thai Party) with Thaksin Shinawatra as prime minister. He launched a series of economic initiatives designed to stabilize the economy, boost domestic demand, encourage the growth of small and medium-sized businesses, and improve rural incomes. Thailand's economy experienced relatively strong growth from 2002-2004; real GDP growth averaged 6.2%. Real GDP growth was more modest in 2005 at 4.5%, due to a number of factors, including the December 2004 tsunami, higher energy prices, rising inflation, concerns over the avian influenza (bird flu), and domestic insurgencies. Global Insight, an international economic forecasting firm, estimates Thailand's real GDP will rise by 4.6% in 2006 and 5.2% in 2007.³ Major economic challenges include reducing the high level of corporate debt and the amount of non-performing loans held by the banking sector.

Table 1. Selected Economic Indicators for Thailand's Economy: 1996-2005

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Real GDP Growth (%)	5.9	-1.4	-10.5	4.4	4.8	2.2	5.3	7.0	6.2	4.5
GDP (\$billions)	182	151	112	123	123	115	127	143	162	177
GDP (billions (\$PPP)*	377	380	347	365	386	404	432	471	513	546
Per Capita GDP (\$PPP)*	6,298	6,278	5,666	5,900	6,178	6,419	6,799	7,359	7,890	8,340
Exports (\$billions)	56	58	54	58	69	65	68	80	96	111
Imports (\$billions)	72	63	43	50	62	62	65	76	95	120
Annual FDI (\$billions)	2.3	3.9	7.3	6.1	3.4	3.9	1.0	2.0	1.4	1.7
Public Debt as a % of GDP (%)	16.7	31.8	40.2	51.6	54.2	49.8	51.5	46.9	36.3	31.4
Unemployment Rate (%)	3.6	3.2	7.3	6.3	5.8	5.1	3.5	3.0	2.8	2.4

Source: The Economist Intelligence Unit (EIU) and Global Insight. Data for 2005 are estimates.

* PPP= purchasing power parity.

² Purchasing power parity (PPP) measurements attempt to convert foreign currencies into U.S. dollars, based on the actual purchasing power of such currency (derived from surveys on domestic prices) in each respective country. They thus give a more accurate measurement of the size of a country's economy and living standards relative to those in the United States.

³ Global Insight, *Thailand*, December 20, 2005.

Thailand's economy is heavily dependent on international trade and foreign investment. In 2005, the value of Thailand's merchandise exports was equal to 63% of its GDP. Foreign direct investment (FDI) is an important source of exports, employment, and access to new technologies and processes. Thailand's top five trading partners in 2005 were the Association of South East Asian Nations (ASEAN),⁴ Japan, the European Union, the United States, and China (see **Table 2**). The United States was Thailand's second largest export market and its fifth largest supplier of imports. Thailand's major exports (2004 data) included machinery and mechanical appliances (mainly computers and computer parts), electrical apparatus for electrical circuits, and electrical appliances. Major imports included mineral and metal products, electronic parts, and crude oil. Annual FDI flows to Thailand have been relatively flat over the past few years, averaging about \$1.5 billion annually from 2002 to 2005. Some analysts contend that China may be drawing FDI away from Thailand and other East Asian countries.

Table 2. Thailand's Top 5 Trading Partners: 2005
(\$billions)

	Total Trade	Exports	Imports	Trade Balance
ASEAN	45.8	24.2	21.6	2.6
Japan	41.3	15.2	26.1	-10.9
European Union	25.8	15.0	10.8	4.2
United States	25.0	17.1	7.9	9.2
China	20.1	9.0	11.1	-2.1

Source: Bank of Thailand. Estimated, based on data for January-November 2005.

U.S.-Thailand Commercial Relations

The United States and Thailand maintain extensive commercial ties. Thailand affords the United States preferential treatment vis-a-vis other countries for certain types of investment under the U.S.-Thai Treaty of Amity and Economic Relations of 1966.⁵ The American Chamber of Commerce in Thailand estimates that the United States is the second largest foreign investor in Thailand (after Japan), with cumulative investment at over \$21 billion through 2004. U.S.-invested firms in Thailand employ over 200,000 Thai nationals. Major sectors for U.S. FDI in Thailand include petroleum, banking, electronics, and automotive. In recent years, U.S. auto companies have invested heavily in Thailand.

In 2005, Thailand was the 23rd largest U.S. export market (\$7.4 billion) and its 16th largest source of imports (\$20.0 billion) (see **Table 3**).⁶ U.S. exports to, and imports from, Thailand expanded by 15.6% and 14.0%, respectively, over the previous period in 2004. Major U.S. exports to Thailand include semiconductors and other electronic

⁴ ASEAN members include Brunei, Indonesia, Malaysia, the Philippines, Singapore, Cambodia, Laos, Myanmar (Burma), and Vietnam (as well as Thailand).

⁵ In order to comply with WTO rules, Thailand is expected to phase out these privileges by 2005, which would give all foreign investors equal access to Thailand services markets.

⁶ Estimated, based on data for January-November 2005.

components; computer equipment; basic chemicals, navigational, measuring, electromedical, and control instruments; miscellaneous manufactured products ; and basic chemicals. Major U.S. imports from Thailand include computer equipment, semiconductors and other electronic components, communications equipment, apparel, and miscellaneous manufactured products (mainly jewelry).

Table 3. U.S. Merchandise Trade with Thailand: 1997-2005
(\$billions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 (est.)
U.S. Exports	7.4	5.2	5.0	6.6	6.0	4.9	5.8	6.4	7.4
U.S. Imports	12.6	13.4	14.3	16.4	14.7	14.8	15.2	17.6	20.0
U.S. Trade Balance	-5.2	-8.2	-9.3	-9.7	-8.7	-9.9	-7.3	-11.2	-12.6

Source: U.S. International Trade Commission *DataWeb*.

Note: Data for 2005 are estimates based on actual data for January-November 2005.

Major Issues in Thai-U.S. Economic Relations

Thai-U.S. economic relations continue to deepen, as Thailand continues to reform its economy and lower its trade barriers. Still, a number of contentious issues persist. Thai officials have criticized U.S. agricultural subsidy programs, contending that they give U.S. farmers an unfair competitive advantage. In addition, Thailand has participated in two WTO dispute resolution cases against the United States: U.S. anti-dumping subsidy offsets (the “Byrd Amendment”), and U.S. restrictions on shrimp imports.

While the United States has not filed any cases against Thailand in the WTO, it has pressed Thailand to liberalize its trade regime and to improve protection of U.S. intellectual property rights (IPR). Thailand’s tariffs are relatively high, averaging about 13%, with higher rates for imports that compete directly with Thai products. Agricultural duties average 24%, with some tariff lines as high as 90%. The government imposes a 80% tariff on passenger cars and sport utility vehicles, plus an excise tax of 20 to 50%.⁷ In addition, Thailand imposes a number of non-tariff barriers, such as permit and licensing requirements, restrictive rules on tariff-rate quotas, non-transparency of trade rules, unjustifiable sanitary and phytosanitary rules, and various restrictions on trade in services.

Deficiencies in Thai protection of U.S. IPR, such as patents, copyrights, and trademarks, have been a longstanding U.S. concern. The USTR’s 2005 “Special 301” report acknowledged that Thailand had taken a number of measures in 2004 to improve IPR protection, such as conducting raids on illegal production facilities, but expressed concern over transshipments of illegal IPR products through Thailand and the continued high piracy rates of copyrighted materials (such as optical disks, software, and books). The International Intellectual Property Rights Alliance (IIPA) estimates that IPR piracy in Thailand cost U.S. firms \$175 million in 2004.

⁷ USTR, *2005 National Trade Estimate Report on Foreign Trade Barriers*, 2004, p. 606.

Proposal for a U.S.-Thailand FTA

Several policymakers have urged the Bush Administration to seek a free trade agreement with Thailand in order to deepen commercial and political relations between the two nations, promote economic reform in Thailand, reward Thailand for its cooperation with the United States on a number of issues (including the U.S. war against terrorism), and provide new opportunities for U.S. exporters. In October 2002, the United States and Thailand signed a Trade and Investment Framework Agreement (TIFA) in order to resolve bilateral economic issues and to initiate discussions on the possibility of negotiating a bilateral free trade agreement.⁸ In June 2003, President Bush and Thailand's Prime Minister Thaksin met and issued a joint statement indicating their desire to resolve issues being discussed under the TIFA (including IPR, investment, and customs procedures) as a "first step" toward a possible free trade agreement. Subsequent talks under the TIFA resolved a number of IPR and customs valuation issues. As a result, on October 19, 2003, during a state visit by President Bush to Thailand, the two sides formally announced they would begin FTA talks. On February 12, 2004, the USTR formally notified Congress of its intent to begin negotiations with Thailand for a FTA.

Economic and Political Benefits and Costs of an FTA. Although it is not yet clear what a U.S.-Thailand FTA would entail, it is likely that such an agreement would provide overall economic benefits to both sides. A White House fact sheet contends that an FTA with Thailand would boost U.S. exports, particularly of agricultural products and a range of services, and would boost the investment climate for U.S. firms.⁹ Most economists argue that lowering trade barriers reduces costs for consumers and promotes economic efficiency, boosting economic growth for all national participants in an FTA. For example, economists maintain that a significant reduction in Thailand's tariff barriers on U.S. agricultural products would likely lower prices for all such products in Thailand, boosting U.S. exports to Thailand and increasing the economic welfare of Thai consumers by increasing their purchasing power; the same benefits are projected to accrue to Thai exporters and U.S. consumers if U.S. trade barriers were lowered. Similarly, a reduction in Thai barriers on auto parts trade would likely boost U.S. exports of auto parts to Thailand. Lower-priced auto parts would make manufacturers of autos in Thailand more competitive by lowering their costs. On the other hand, some economists argue that bilateral FTAs lead to trade diversion, where production and trade is diverted away from efficient producers outside the free trade area to less efficient producers who are inside the free trade area. In addition, lowering trade barriers produces both winners and losers. The losers are in those sectors which face tougher competition, because they are no longer receiving the same level of protection they once did. In order to remain competitive, they must cut costs. Those that cannot remain competitive must exit the market, resulting in job losses in that sector. As a result, sectors in both countries that might be negatively affected by a U.S.-Thailand FTA may oppose it.

⁸ This agreement stemmed from the Bush Administration's October 2002 Enterprise for ASEAN Initiative (EAI), which seeks closer economic ties with ASEAN countries, including bilateral free trade agreements with countries that are "committed to economic reforms and openness."

⁹ The White House, *Fact Sheet on Free Trade and Thailand*, October 19, 2003.

Status of FTA Negotiations

The two sides completed their sixth round of FTA negotiations in Chiang Mai, Thailand, on January 10-13, 2006. Although U.S. negotiators stated that some progress was made, they expressed disappointment over the lack of progress in the talks. Major stumbling blocks reportedly include U.S. proposals on intellectual property rights¹⁰ and liberalization of the services sector, including distribution, financial services (such as banking, insurance, and securities brokerage) and telecommunications. Thai officials have sought to reduce high U.S. tariffs on light trucks (25%) and restrictions on sugar imports. In addition, the January 2006 FTA talks were reportedly temporarily disrupted by an estimated 10,000 Thai protesters. On January 19, 2006, Thailand's lead negotiator in the U.S.-Thailand FTA talks, Nitya Pibulsonggram, resigned. As a result, it is unclear whether the U.S. goal of completing the FTA negotiations by spring 2006 will be achieved.

¹⁰ One concern expressed by Thai opponents to the FTA is that U.S. efforts to obtain stronger IPR protection on patents will prevent Thailand from gaining access to low cost drugs, such as those used by HIV/AIDS patients. U.S. negotiators deny this would occur.