Order Code RS21478
Updated February 23, 2004

Thailand-U.S. Economic Relations: An Overview

Wayne M. Morrison
Specialist in International Trade and Finance
Foreign Affairs, Defense, and Trade Division

Summary

Thailand is a key U.S. ally in the international war against terrorism and efforts to counter illegal narcotics traffic, 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). On February 12, 2004, the U.S. Trade Representative (USTR) formally notified Congress it would begin negotiations for an FTA with Thailand. This report will be revised as events warrant.

The United States and Thailand have maintained 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.

Thailand and the Asian Financial Crisis

Thailand continues to recover from the debilitating effects of 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) and depletion of nearly all of Thailand's foreign exchange reserves,[1] a decline in the stock market, and a sharp deterioration of

---

[1] Prior to the crisis, the Thai government attempted to peg the baht to the U.S. dollar (at around 25 baht to the dollar). However, speculative pressures on the baht forced the government to attempt to maintain the peg through high interest rates and, ultimately, to use foreign exchange reserves to prop up the currency. Eventually, however, the government nearly ran out of foreign exchange reserves and was forced to abandon the currency peg by allowing the currency to float in international markets. This led the baht to depreciate sharply (at one point reaching 56 baht (continued...)

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, fueled in large part by exports. After averaging 8.6% annual growth between 1990 and 1996, Thailand's real gross domestic product (GDP) fell by 1.4% in 1997 and then declined by 10.3% in 1998 (see **Table 1**). Trade also suffered: in 1998, exports fell by 6.7% and imports plunged by 33.0% (in dollar terms) over 1997 levels. The unemployment rate rose from 3.2% in 1997 to 7.3% in 1998. In addition, Thailand's per capita GDP on a purchasing power parity (PPP) basis, a common measurement of a nation's living standards, plummeted by 12%, from $6,580 to $5,817.[2]

Thailand's economy was stabilized by a $17.2 billion loan from the International Monetary Fund (IMF), although a number of major Thai banks and corporations were forced into bankruptcy, largely because much of their short-term debt was in U.S. dollars.[3] Real GDP grew by 4.4% in 1999 and by 4.6% in 2000, but slowed to 1.8% 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 has generally experienced strong growth over the past two years, and many analysts are projecting strong growth in the near term. Real GDP increased by 4.8% in 2002. Although the Thai economy (especially the tourist sector) was negatively affected by the outbreak of Severe Acute Respiratory Syndrome (SARS) in early 2003, it quickly recovered and grew at an estimated 6.2% in real terms for the full year, boosted in part by strong export growth.[4] Unemployment fell from 3.7% in 2002 to 3.4% in 2003. Thailand's living standards, measured according to per capita GDP in PPPs, improved by an estimated 4.9% in 2003. The Economist Intelligence Unit (EIU), an international economic forecasting firm, projects that Thailand's real GDP will rise by 6.9% in 2004 and by 5.6% in 2005.[5] Despite optimistic projections for the Thai economy over the next few years, many economists remain concerned over the relatively slow pace of banking reforms and the restructuring of non-performing loans, which could potentially spark another financial crisis in Thailand. In addition, although Thailand's public debt fell sharply in 2003, it remains relatively high by international standards.

---

[1] (...continued)
to the dollar in January 1998) and forced the Thai government to seek international financial assistance.

[2] PPP measurements attempt to convert foreign currencies into U.S. dollars based on the actual purchasing power of such currency (based on surveys of the prices of various goods and services) 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] The sharp depreciation of the Baht that occurred in 1997 significantly increased the debt burden for these institutions as it took more Baht to purchase dollars to make debt payments. Many such institutions were unable to make their payments and subsequently went bankrupt.

[4] Thailand's exports grew by an estimated 12.9% in 2003.

[5] Global Insight, *Thailand*, December 2003.

Table 1. Selected Economic Indicators for Thailand's Economy: 1996-2003

	1996	1997	1998	1999	2000	2001	2002	2003 (estimate)
Average Exchange Rate (Baht per U.S.$)	25	31	41	38	40	44	43	48
Real GDP Growth (%)	5.9	-1.4	-10.3	4.4	4.6	1.8	4.8	6.2
GDP ($billions)	182	151	112	123	123	115	126	133
GDP (billions ($PPP)*	397	391	349	370	389	404	431	464
Per Capita GDP ($PPP)*	6,741	6,580	5,817	6,094	6,350	6,560	6,910	7,250
Exports ($billions)	56.0	58.4	54.5	58.5	69.8	65.4	68.9	77.8
Imports ($billions)	72.2	63.3	42.4	49.9	62.2	61.8	64.3	64.9
FDI ($billions)	2.3	3.9	7.3	6.2	3.4	3.8	3.3	2.2
Public Debt as a % of GDP (%)	13.6	23.8	43.9	52.2	54.9	53.4	60.4	48.8
Unemployment Rate (%)	3.5	3.2	7.3	6.3	5.8	5.0	3.7	3.4

Source: The Economist Intelligence Unit (EIU). Data for 2003 are estimates.

Note: PPP data are measurements of foreign data in national currencies converted into U.S. dollars based on a comparable level of purchasing power these data would have in the United States. Prices for goods and services are generally lower in Thailand than in the United States, and hence, the PPP measurement of Thailand's GDP is significantly higher than GDP data expressed in nominal U.S. dollars.

Thailand's economy is heavily dependent on international trade and foreign investment. Merchandise exports account for over half of Thailand's GDP. Foreign direct investment (FDI) is an important source of employment and new technologies and processes. Thailand's top trading partners in 2003 were Japan, the United States, the European Union (EU), and China (see **Table 2**). The United States was Thailand's largest export market and its third largest supplier of imports, after Japan and the EU. Thailand's major imports (2002 data) include electrical machinery and parts, fuels and lubricants, non-electrical machinery and parts (e.g., computers), chemicals, and base metals. Major Thai exports (2002 data) include non-electrical machinery and parts, electronic integrated circuits, motor cars and parts, garments, and precious stones and jewelry. The cumulative level of FDI in Thailand at the end of 2003 was about $31 billion. Annual FDI flows to Thailand have been relatively flat over the past few years, and in 2003, FDI in Thailand declined by one third, attributed by some analysts to a shift in FDI to China.

Table 2. Thailand's Major Trading Partners: 2003
($billions)

	Total Trade	Exports	Imports	Trade Balance
Japan	28.5	11.1	17.4	-6.3
United States	19.9	13.4	6.5	6.9
European Union	18.7	11.4	7.3	4.1
China	11.2	5.4	5.8	-0.4

Source: Bank of Thailand.
Note: Estimated, based on actual data for January-September 2003.

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.[6] The American Chamber of Commerce estimates that the United States is the second largest foreign investor in Thailand (after Japan), with cumulative investment at $20 billion. U.S.-invested firms in Thailand employ over 200,000 Thai nationals.[7] 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.[8]

In 2003, Thailand was the United States' 23rd largest export market ($5.8 billion) and its 15th largest supplier of imports ($14.8 billion). U.S. exports to Thailand increased by 20.2% (over 2002 levels), while U.S. imports from Thailand rose by 2.6% to (see **Table 3**). However, while imports from Thailand were 17.5% higher than 1997 levels, U.S. exports to Thailand in 2003 were 20.6% lower than they were in 1997.[9]

[6] 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.

[7] American Chamber of Commerce in Thailand, Press Release, October 22, 2003.

[8] In October 2003, Ford Motor Company and its affiliate, Mazda Motor Company, announced plans to invest $500 million in Thailand to boost production of its current auto joint venture, Auto Alliance Thailand. This would be in addition to the $500 million that was initially invested by the companies in 1995. Source, *Automotive Intelligence News*, October 15, 2003.

[9] Major U.S. imports from Thailand include include clothing and apparel, office machines and parts (i.e., computer equipment), and telecommunications and sound and reproducing apparatus and equipment. Major U.S. exports to Thailand include electrical machinery and parts, transport equipment (mainly aircraft), and office machines and parts.

Table 3. U.S. Merchandise Trade with Thailand: 1997-2003
($millions)

	1997	1998	1999	2000	2001	2002	2003
U.S. Exports	7,357	5,233	4,984	6,643	5,995	4,859	5,842
U.S. Imports	12,595	13,434	14,324	16,389	14,729	14,799	15,181
U.S. Trade Balance	-5,238	-8,201	-9,340	-9,747	-8,733	-9,940	-7,336

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

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. On the Thai side, government officials have expressed disappointment with the United States for failing to take a more active role in coming to the rescue of the Thai economy when it first faced its serious economic crisis in 1997. More recently, Thai officials have sharply criticized U.S. agricultural policies, especially the farm bill that was enacted in 2002 (The Farm Security and Rural Investment Act of 2002, P.L.107-171). They argue that the farm bill heavily subsidies U.S. farmers, giving them an unfair competitive advantage over Thai farmers (especially in regards to rice). 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 (that were in place in order to protect sea turtles).

While the United States has not filed any cases against Thailand in the WTO, it has raised a number of issues with Thailand over its trade regime, including high trade barriers (especially in regard to agricultural products, automobiles, alcoholic beverages, and electronic products), inadequate protection of U.S. intellectual property rights (IPR), and non-transparent customs rules and procedures. Thailand's tariffs are relatively high, averaging about 16%, with higher rates for imports that compete directly with Thai products (especially agricultural products). Tariffs on agricultural and processed food groups average over 29% and run as high as 55%. Tariffs on auto imports are also very high, including 80% for passenger cars and sport utility vehicles, 40 to 60% for auto parts and components, and 35% for raw materials used for making auto parts.[10] The USTR's 2003 "Special 301" report on IPR protection noted that Thailand had recently taken a number of measures to improve IPR protection, but stated that the United States was concerned with the "explosion of copyright piracy within its borders." The International Intellectual Property Rights Alliance (IIPA) estimates that IPR piracy in Thailand cost U.S. firms $160 million in lost trade in 2002.

[10] USTR, *2002 National Trade Estimate Report on Foreign Trade Barriers*, 2003, p. 55-56.

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.[11] In June 2003, President George W. Bush and Thailand's Prime Minister Thaksin Shinawatra 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 seek to 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.[12] 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.

---

[11] 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."

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