Order Code RS21478
March 28, 2003

CRS Report for Congress

Received through the CRS Web

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 Asian Financial Crisis which hit the country in 1997. International trade and investment continues to play a major role in the Thai economy, and policymakers there are attempting to develop strategies to boost Thailand's international competitiveness. 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.[1] The economic crisis in Thailand was characterized by a significant depreciation of the Baht (which led to a depletion of nearly all of Thailand's foreign exchange reserves),[2] a decline in the stock market, and a sharp deterioration of

---

[1] For additional information on the Asian Financial crisis, see CRS Report 98-434, *the Asian (Global?) Financial Crisis, the IMF, and Japan: Economic Issues,* by Dick K. Nanto (September 3, 1998); and CRS Report RL30517, *Asian Financial Crisis and Recovery: Implications for U.S. Interests,* by Richard Cronin (April 6, 2000).

[2] Prior to the crisis, the Thai government attempted to maintain a currency peg to the U.S. dollar
(continued...)

property prices. The combination of these shocks led to a major 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 GDP fell by 1.4% in 1997 and then declined by 10.3% in 1998 (see **Table 1**). Trade also suffered: in dollar terms, exports in 1998 fell by 6.7%, and imports plunged by 33.0%, over 1997 levels. The unemployment rate during this period rose from 3.2% to 7.3%. In addition, Thailand's per capita GDP on a purchasing power parity (PPP) basis, a common measurement of a nation's living standards, fell by 12%.[3]

Thailand's economy was stabilized by a $17.2 billion loan from the 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.[4] Real GDP grew by 4.4% in 1999 and by 4.6% in 2000 (although it slowed to 1.8% in 2001). Public dissatisfaction 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 Thatskin 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 and development.

Real GDP increased by 4.8% in 2002, boosted by increased exports and greater domestic demand. The unemployment rate (which has gradually fallen since 1998) dropped to 4.1% in 2002. Thailand's living standards (measured according to per capita GDP in PPPs) in 2002 finally recovered to slightly over 1997 levels. Thai exports in 2002 were much higher than 1997 levels, although imports were barely higher. Despite these improvements to the Thai economy, many economists are concerned over the growing level of public debt, which has risen from 12.6% of GDP in 1996 to 60.4% in 2002, and over the relative slow pace of banking reforms and the restructuring of non-performing loans.[5] Some economists warn that these factors could potentially spark another financial crisis in Thailand.

---

[2] (...continued)
(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, using 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 to the dollar in January 1998) and forced the Thai government to seek international financial assistance. The currency has recovered somewhat since then, averaging 43 Baht per dollar in 2002, but is still significantly lower than its 1996 value.

[3] 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.

[4] The sharp depreciation of the Baht that occurred in 1997 significantly increased the debt burden for these institutions as it now took more Baht to purchase dollars to make debt payments. Many such institutions were unable to make their payments and subsequently went bankrupt.

[5] One estimate puts Thailand's non-performing corporate loans at $42.5 billion, equal to 34% of GDP. See, Thailand's Debt Undertow, *Businessweek*, September 23, 2002.

Table 1. Selected Economic Indicators for Thailand's Economy: 1996-2002

	1996	1997	1998	1999	2000	2001	2002
Average Exchange Rate (Baht per U.S.$)	25	31	41	38	40	44	43
Real GDP Growth (%)	5.9	-1.4	-10.3	4.4	4.6	1.8	4.8
GDP ($billions)	182	151	112	123	123	115	126
GDP (billions ($PPP)*	397	391	349	370	389	404	431
Per Capita GDP ($PPP)*	6,741	6,580	5,817	6,094	6,350	6,560	6,910
Exports ($billions)	56.0	58.4	54.5	58.5	69.8	65.4	68.9
Imports ($billions)	72.2	63.3	42.4	49.9	62.2	61.8	64.3
FDI ($billions)	2.3	3.9	7.3	6.2	3.4	3.8	3.3
Public Debt as a % of GDP (%)	13.6	23.8	43.9	52.2	54.9	53.4	60.4
Unemployment Rate (%)	3.5	3.2	7.3	6.3	5.8	5.4	4.1

*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.

Sources: DRI-WEFA, Global Insight, Thailand, January 16, 2003, Thailand's Customs Department, and the Economist Intelligence Unit (EIU).

Thai Trade and Investment Patterns

Thailand's economy is heavily dependent on international trade and foreign investment. Thailand's merchandise exports ($68.9 billion in 2002) account for 55% percent of its GDP. Foreign direct investment (FDI) is an important source of employment and new technologies and processes. Thailand's top trading partners in 2002 were Japan, the United States, Singapore, China, and Malaysia. The United States was Thailand's largest export market and its second largest supplier of imports, after Japan (see **Table 3**). Thailand's major imports in 2002 included electrical machinery and parts, fuels and lubricants, non-electrical machinery and parts (e.g., computers), chemicals, and base metals. Major exports included 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 2002 is estimated at $32.5 billion.[6] In 1997 and 1998, FDI in Thailand grew significantly (relative to previous years), mainly because foreign firms purchased Thai assets that were negatively affected by the Asian financial crisis and to take advantage of lower investment costs that resulted from the Baht's devaluation. Over the past three years (2000-2002) FDI in Thailand has

[6] *Economist Intelligence Unit* (EIU).

averaged $3.5 billion.[7] The top three sources of FDI in Thailand are Japan, the United States, and Singapore.[8]

Table 2. Thailand's Major Trading Partners: 2002
($ billions)

	Total Trade	Exports	Imports	Trade Balance
Japan	24.8	10.0	14.8	-4.8
United States	19.6	13.5	6.1	7.4
Singapore	8.5	5.6	2.9	2.7
China	8.4	3.5	4.9	-1.4
Malaysia	6.4	2.8	3.6	-0.8

Source: Bank of Thailand

Thailand is a member of a number multilateral and regional organizations whose goal is (among others) to promote expanded trade and economic cooperation (among member economies), including, the World Trade Organization (WTO), the Association of South East Asian Nations (ASEAN), and the Asia-Pacific Economic Cooperation (APEC) forum.[9] As a member of ASEAN, Thailand is implementing trade and investment liberalization measures (towards other ASEAN members) under the ASEAN Free Trade Area (AFTA) initiative. In November 2002 ASEAN and China agreed to enter into a free trade area within the next 10 years. Thailand is also considering entering into bilateral free trade agreements with a number of countries.

U.S.-Thailand Economic 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.[10] The U.S. Commerce Department estimates that cumulative level of U.S. FDI in Thailand

---

[7] Cumulative Thai FDI statistics are difficult to obtain because various Thai agencies use different measurements of FDI and thus report significantly different data. The EIU data in table 1) estimates FDI in Thailand in 2002 at $3.3 billion, about 13% below its estimated 2001 levels. However, the Bank of Thailand estimates 2002 FDI in Thailand at $551million, 85% lower than its estimate for 2001 ($3.8 billion). Part of the discrepancy in the data is due to the fact that the Bank of Thailand data excludes investment in the banking sector.

[8] Rankings based on cumulative FDI from 1995-2001. Source: *United Nations Conference on Trade and Investment.*

[9] The United States is a member of the WTO and APEC, but not ASEAN. For a listing of membership and background information for these organizations, see official WTO website at [http://www.wto.org],official ASEAN website at [http://www.aseansec.org], and official APEC website at [http://www.apecsec.org].

[10] 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.

(on a historical-cost basis) at the end of 2001 was $7.3 billion.[11] Annual flows of U.S. FDI in Thailand averaged $170.4 million from 1997 to 2001. Overall major sectors for total U.S. FDI in Thailand include manufacturing (47% of total FDI), petroleum (28%), and depository institutions (10%).[12] In recent years, U.S. auto companies have invested heavily in Thailand.

In 2002, Thailand was the United States' 23rd largest export market ($4.9 billion) and its 15th largest supplier of imports ($14.8 billion). U.S. exports to Thailand in 2002 were more than a third lower than they were in 1997, while U.S. imports from Thailand were 17.5% higher (see **table 3**). The top three U.S. exports to Thailand were electrical machinery; office machines, data processing machines, and parts (e.g., computers); and general industrial machinery. The top three U.S. imports from Thailand were office machines, data processing machines, and parts; articles of apparel and clothing accessories; and telecommunications and sound equipment.

Table 3. U.S. Merchandise Trade with Thailand: 1997-2002
($millions and % change)

	1997	1998	1999	2000	2001	2002	1997-2002 % change
U.S. Exports	7,357	5,233	4,984	6,643	5,995	4,859	-34.0
U.S. Imports	12,595	13,434	14,324	16,389	14,729	14,799	17.5
U.S. Trade Balance	-5,238	-8,201	-9,340	-9,747	-8,733	-9,940	90.0

Source: U.S. Census Bureau.

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), arguing that it heavily subsidies U.S. farmers, giving them an unfair competitive advantage over Thai farmers, especially in regard to rice. Thai officials further argue that the farm bill has undermined efforts in the WTO for more liberalized trade in agricultural products. 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,

[11] The U.S. Embassy in Thailand estimates this figure may in fact be over $16 billion.

[12] Department of Commerce, Bureau of Economic Analysis.

and electronic products), inadequate protection of U.S. intellectual property rights (IPR),and non-transparent customs rules and procedures. 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.[13]

Does China's Economic Rise Threaten Thailand's Economy?

Some Thai policymakers have expressed concern over the "competitive challenge" posed by China's growing economic power, especially in terms of China's ability to attract large amounts of FDI (nearly $53 billion in 2002) and its expanding production and export of labor-intensive items (such as textiles and apparel) and advanced technology goods (such as computers and computer parts)–many of which compete with Thai goods in world markets.

China's accession to the WTO (which occurred in December 2001) will likely pose both challenges and opportunities for Thailand and other East Asian economies. On the one hand, reductions in Chinese trade and investment barriers (that are now taking place under China's WTO commitments) are likely to accelerate the flow of FDI into China, at least in the short term. Some of the new FDI going into China may come at the expense of East Asian economies. The United Nations Conference on Trade and Investment estimates that, while worldwide FDI in developing countries fell by over 25% in 2002, FDI in China in grew by nearly 13%. On the other hand, Thailand's strong economy, central location in East Asia, and political stability will continue to make it an attractive place for FDI. There does not appear to be much evidence that foreign firms already in Thailand are moving production facilities to China.

Over the past several years, China has been one of the world's fastest growing economies. Strong economic growth is likely to continue in the years ahead, especially if economic reforms are implemented. Strong economic growth, coupled with lower trade and investment barriers, is likely to produce a substantial increase in Chinese demand for imported goods and services (including those from Thailand), especially as incomes of middle-class Chinese consumers continue to rise. Bilateral trade between Thailand and China has been growing rapidly over the past few years. From 1997 to 2002, Thai exports to China grew by 99.8%, while imports grew by 115.2%. Trade was especially robust in 2002: Thai exports to China grew by 23.7% and imports were up by 32.4%, over 2001 levels. China's importance as a trading partner for Thailand is likely to keep rising.

Increased competition from China will likely force many Thai companies to develop new strategies to boost productivity and efficiency It may induce some firms to shift production into more high-end products, such as automobile production, as well as services. The level and extent of future financial and economic reforms, trade liberalization, privatization of state firms, and education reform are likely to be major factors affecting Thailand's international competitiveness in the long run.

---

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