

Free Trade Agreement -- Thais Punt on Trade Talks

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Far Eastern Economic Review
March 4, 2004

THE UNITED STATES and Thailand are set start negotiations in June toward forging a free-trade agreement (FTA), a deal that could lower trade barriers across a wide range of industries in both countries. At the same time, there are signs that the talks could be hampered by politics, with the perceived loss of American jobs developing countries becoming a hot issue in the run-up November's U.S. presidential election.

Preliminary studies suggest the FTA would be a win for both sides, though it would have a much bigger impact on the Thai economy because of its smaller size. An impact assessment recently completed by the Thailand Development Research Institute (TDRI) and the American Chamber of Commerce predicts that lowering tariffs and non-tariff barriers under a bilateral FTA would increase Thai exports to the U.S. by 3.4% and boost total GDP by up 1.3% per year.

That could be good news for many of Thailand's exporters, which currently ship around 20% of their products to the U.S., but which in recent years have lost market share to cheaper Chinese and Mexican producers. A U.S.-Thai deal that promised better protection of foreign investment might also help boost flagging U.S. capital flows into Thailand, which in 2002 were a net negative for the first time in more than 30 years, according to Bank of Thailand balance-of-payment statistics.

Ever since World Trade Organization-led multilateral trade talks collapsed last year in Cancun, Mexico, much of Asia has been opting for the bilateral track forward their trade-liberalization agendas. Major Asian traders such as Japan, China and South Korea are all in the process of negotiating big bilateral deals with neighboring countries. However, there are growing signs that the bilateral track could stumble for the same reason that multilateral talks collapsed: entrenched resistance to opening up agriculture markets.

The U.S. and Australia nearly walked away from their bilateral pact in early February due to disagreements concerning U.S. protection of its sugar, beef and dairy industries. Meanwhile, Japan agreed last year to bilateral trade talks with Thailand on condition that Bangkok would not push for access to Tokyo's tightly guarded rice market. For the U.S. and Thailand -- two of the world's biggest food exporters -- contentious agriculture issues will be prominent during negotiations.

"We will want more access [Thailand's] agriculture markets," says a Bangkok-based U.S. diplomat charged with economic affairs. "We want rules that will make trade more transparent and fair to our traders." A senior Thai official, while noting that both sides have sensitive areas, agrees that "agriculture will be

among the most difficult . . . The farming sector in both countries is very political."

Thailand levies a 23.6% average tariff on the agricultural products it imports, compared the U.S.'s 7.1% import tax, according the report by the TDRI and the American Chamber of Commerce. However, the U.S. uses a complicated mix of quotas, subsidies and strict food-safety requirements hamper agricultural imports, providing a cushion for some farming sectors like sugar and rice, TDRI researchers note. Both countries have powerful farm lobbies that prefer protectionism export-promoting policies.

That means there is strong domestic resistance the deal on both sides. Aside from the current anti-dumping case that the U.S. has taken up against Thai shrimp producers, Washington and Bangkok have had rocky trade relations in recent years, particularly over agriculture and pharmaceuticals. Thai Commerce Ministry officials lodged a protest with the U.S. Trade Representative's Office and threatened retaliatory measures when an American entrepreneur attempted patent Thai jasmine rice in the U.S. in 2002. The case was resolved before going too far.

The U.S. was also forced to scrap a proposed debt-forgiveness-for-reforestation deal in 2002 due to Thai suspicions that big American pharmaceutical companies might use the agreement as a way to patent genetic materials found in Thai forests. Now there are fresh concerns among some Thai agriculture and environmental groups that Washington will push for greater market access for the genetically modified foods and seeds that big U.S. agribusinesses produce, but which critics contend have unproven food and environmental safety records.

The two sides also teetered on the edge of a full-blown trade war in 2001 when the Thai government produced generic HIV-Aids drug treatments under a compulsory licensing arrangement. The U.S. threatened levy high tariffs on various Thai export items, but relented when the WTO ruled in favor of compulsory licensing of HIV-Aids medicines for some developing countries. Trade analysts, meanwhile, note that last year's U.S.-Singapore trade pact -- which will likely be used as a blueprint for a U.S.-Thai FTA -- includes provisions transcending normal trade pacts. In particular, American negotiators are expected to push for intellectual-property and patent-protection laws up and beyond WTO needs, stronger enforcement of competition laws, and the establishment of a third-party dispute-resolution mechanism that would bypass the Thai judiciary.

"There will be a lot of hurdles," says Frances Zwenig of the U.S.-ASEAN Business Council. *"The Thais can learn from the successes and failures"* of other recent American FTAs, she adds. However, advisers to the Thai government are already lobbying for a 10-year cushion implement the intellectual-property-protection measures Singapore agreed . Meanwhile, Thai negotiators are gearing up beat back probable U.S. demands for stronger patent protection for pharmaceuticals, say Thai officials.

"U.S. drug companies could ask for too much. That could spoil the deal," predicts Somkiat Tangkitvanich, a researcher at TDRI. "If we offer the U.S. too much, we'll have to do the same with all the other countries we are negotiating FTAs with." These include China, Japan and Australia.

Despite the hurdles, Thai Prime Minister Thaksin Shinawatra has stated his aim is to hammer out a deal by the end of this year, due to concerns that a Democratic Party victory in the U.S. presidential election will usher in an era of protectionism. Some Democratic Party candidates are making protection of U.S. jobs from foreign competition a campaign plank. But U.S. officials say it will take one or two years to broker and ratify an agreement.

Some Thai trade groups and opposition politicians complain that any rush to seal a deal could mean Thai negotiators failing to take on board concerns raised by small-scale businesses and farmers about the impact of an FTA on their livelihoods. "We should know when to say 'no' on issues we simply can't say 'yes' ," says Kiat Sittheeamorn, chairman of Thailand's International Chamber of Commerce. "If [the government] pushes too fast, it could cause a backlash."