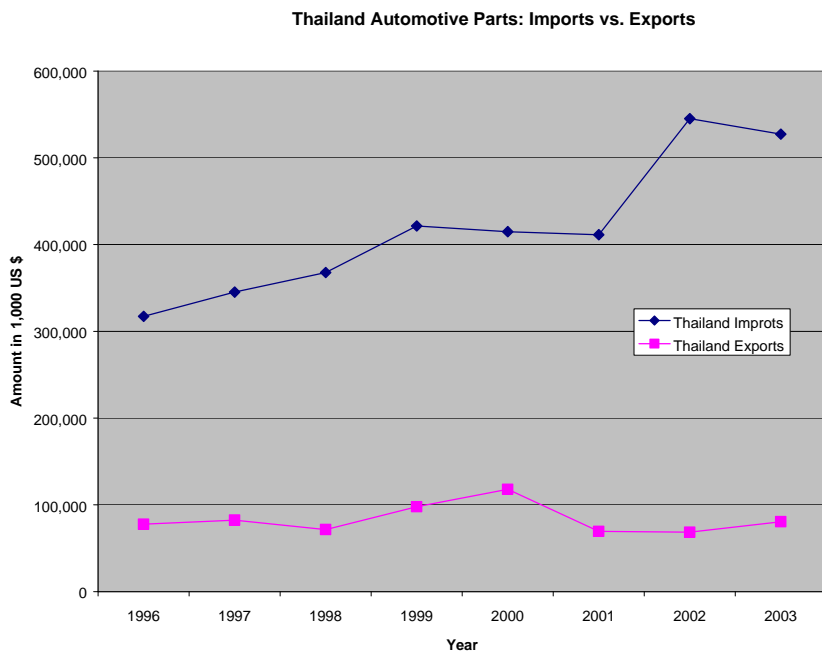


## US Thailand Free Trade Negotiations

In October of 2003 the United States and Thailand announced that they would begin negotiating a bi-lateral free trade agreement. In February 2004 the Office of the United States Trade Representative (USTR) asked the U.S. International Trade Commission (USITC) to provide an analysis of the economic impact of an agreement on the various industries. The auto and auto parts industries comprise one of these important industry sectors. The USITC report is expected sometime in August. After the report is submitted to USTR officials from USTR will begin negotiations with their counterparts from Thailand.

A free trade agreement with Thailand is expected to have a significant impact on auto and auto parts trade between the U.S. and Thailand. Thailand is the second largest buyer of pick-up trucks behind the U.S. They are also a significant producer of pick-up trucks. Thus, there is not only an opportunity to export more U.S. built pick-ups to Thailand, but also one to import more pick-up trucks from Thailand. The same opportunity and threat exists for parts suppliers that currently sell parts that go into pick-ups. In addition, both Thailand and U.S. parts suppliers are facing formidable competition from suppliers with manufacturing facilities in China. Duty free trade between the U.S. and Thailand could help offset some of the cost advantages China has over both the US and Thailand.

Currently there is very little trade in autos or auto parts between the U.S. and Thailand. In 2003 the value of U.S. exports to Thailand of cars and light trucks was approximately 101 million dollars. Imports of cars and light trucks from Thailand were less than 1 million dollars. Imports



and exports of auto parts were greater but still small when compared to other countries. In 2003 we imported 527 million dollars worth of auto parts and exported 80 million dollars in auto parts (*See Thailand Automotive Parts: Imports vs. Exports Chart*). The trend in imports over the past eight years has been up. In 1996 our Thai auto parts imports were valued at 317 million dollars. This figure grew every year through 2002 when it reached 545 million dollars. After a small dip in

2003 it appears that the growth trend is re-emerging in 2004. On the other hand the trend in U.S. exports to Thailand has been flat over the past eight years. In 1996 we exported 77 million dollars in auto parts and in 2003 we exported 80 million dollars in auto parts.

We are on pace to export less than 75 million dollars in parts this year. During that eight-year period there was a two-year rise in exports. This rise coincided with the building of assembly plants by GM and Ford. However, after an initial bump in exports it appears that Ford and GM have found local sources of supply or import these products from somewhere other than the U.S. In addition our largest export to Thailand has been wiring harnesses and ignition wiring probably in a semi-finished state and then further assembled in Thailand. In return we have been importing finished wire harnesses and ignition wiring systems from Thailand. Both of these numbers have been declining as this activity has moved to lower wage countries such as Vietnam and China.

For a breakdown of annual automotive parts imports and exports by parts code HTS number please visit:

<http://www.eautoportal.com/eap/data/gov-stats/ThaiImports.asp> and  
<http://www.eautoportal.com/eap/data/gov-stats/ThaiExports.asp>.

A free trade agreement with Thailand would help to offset some of the cost advantages of the lower wage countries and thus help Thailand compete in the U.S. market. It also may help U.S. manufacturers of vehicles to sell their cars and light trucks in Thailand. This in turn would help U.S. aftermarket suppliers sell additional components to Thailand. Most U.S. OE parts production would not benefit from a free trade agreement unless the Big Three increased their use of North American built power-train systems or began to build North American design vehicles like large light trucks or SUVs in Thailand.

U.S. OE parts suppliers could benefit from a free trade agreement with Thailand by setting up operations or relationships in Thailand and by sourcing sub-components in Thailand. Equipment and service suppliers to the auto and auto parts industry would benefit in two ways. First, they would be able to sell to their traditional customer base as it expanded in Thailand and second they would have a price advantage over their Japanese and European competitors to the extent of the tariff discrepancy between imports from the U.S. and from other parts of the world.

Since the “chicken war” with the EU back in 1966 the U.S. tariff on light trucks has been 25%. This is by far the largest tariff on a single manufactured good of such importance to the U.S. economy. As a result of this tariff the U.S. auto industry has not had to face much competition from foreign sources. Japanese automakers have long dominated the Southeast Asian market in small pick-ups, but have had trouble with market share in the U.S. This is primarily due to the tariff and has led Toyota and Nissan to build trucks in North America first the small pick-up and now the full-size. Only imports from NAFTA countries, Canada and Mexico, escape this high tariff.

A free trade agreement with Thailand will give Thailand a huge advantage over any other of our trading partners except Canada and Mexico. As a major consumer and producer of pick-ups, Thailand is in a position to become a major player in the U.S. market for pick-ups. Already Ford, GM, Isuzu, Nissan, Mazda, Mitsubishi, and Toyota make pick-ups in Thailand. Toyota, Mitsubishi, and Isuzu have all made Thailand their sole source in Asia for light pick-up truck production. It is very likely that all of these companies would look very seriously at making Thailand a base for producing and exporting pick-ups for the U.S. market as well. This would give these automakers economies of scale that would help them not only in the U.S., but also help them maintain their position in Thailand and the rest of Southeast Asia. There were approximately 1.1 million small pick-ups sold in the U.S. in 2003. Over the long term that

whole market is the potential market for a low cost producing country like Thailand. Back in the late 70's and early 80's when the yen was weak, imports of small pick-ups from Japan were significant even with the 25% tariff. First the voluntary import restraints and then the strong yen turned the Japanese focus to higher value vehicles and North American production. Thus it is very conceivable that imports of pick-ups from Thailand could take a large share of the market in the U.S.

With these thoughts in mind how should the US auto and auto parts industry respond? First, while accepting the inevitability of the free trade agreement they should push for a long tariff phase out period. This will give the industry a chance to adjust to the changes that will take place. Second, they should make sure that the opportunity to trade and invest in Thailand is open and without strings. US automakers' and auto parts makers' investments in Thailand should be treated no differently than a Thai company's investment (national treatment). Thai import regulations and customs pricing scheme should be more transparent and reflect actual prices not arbitrary prices set by customs officials. Thai tariffs on autos, auto parts, and related equipment should be eliminated as soon as possible. The U.S. suppliers or engineering and other services should have free access to Thailand. Even if all of these recommendations are enacted as part of a US Thailand free trade agreement, auto and auto parts trade between the U.S. and Thailand will still benefit Thailand more. This is still positive for both countries in the macro sense. These recommendations are made to give the U.S. industry a chance to benefit as well.

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