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**DIRECTORATE OF INTELLIGENCE**

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Textiles Straining the Fabric of US-Thai Relations [redacted]

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Summary

Consideration in the US Congress of the Jenkins bill--which would sharply curtail Thai textile exports to the United States--coincides with a lackluster export performance by Thailand that threatens economic growth and is compounding foreign debt management problems. Coming on the heels of the recent coup attempt, the proposed legislation also adds to Prime Minister Prem's political problems at home. At a minimum, we believe the bill's enactment would prompt increased domestic political pressure on Prem to retaliate against American interests such as agricultural exports. We also cannot rule out the possibility that some elements in the military would try to use the new US legislation to undercut Prem or as an excuse to plot another coup attempt. Even if the bill is dropped, however, Bangkok over the near term will likely attempt to expand other trade ties, and bilateral relations might cool as Bangkok seeks to reduce its dependence on the United States. [redacted]

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Friction in Trade Relations

US-Thai trade relations--traditionally very cordial--have deteriorated over the past few months, particularly since the Jenkins bill was introduced in the US Congress last spring. As the Thai see it, the bill represents the most serious threat to

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their exports of a number of recent US proposals to curb imports. [redacted]

The timing, moreover, adds to Bangkok's objections to the bill's potential impact. Stagnant foreign exchange earnings are slowing economic growth and making foreign debt management more difficult. US diplomats estimate that Bangkok's debt service ratio probably will hit a record 27 percent this year, even if exports are not held back by trade restrictions in overseas markets. And although Bangkok this year has stepped up its export drive, only manufactures such as textiles--Thailand's number two export earner after rice--have performed well.<sup>1</sup> [redacted]

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With agricultural exports likely to remain sluggish at least in the short term, passage of the Jenkins bill would place an additional strain on Thailand's economy. We calculate that the bill could cut Thai textile exports to the United States by almost two-thirds, representing a 23-percent decrease in the country's total textile exports. This would probably amount to a \$220 million drop in export earnings--equal to 3 percent of Thailand's 1984 exports--and almost certainly would derail Bangkok's efforts to boost exports. (See appendix A.) [redacted]

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According to the US Embassy, heavy losses in the textile industry would seriously damage the economy as firms failed and bank loans soured. Prominent Thai economists estimate that the bill would probably cause the country's growth rate in 1986 to decline a full percentage point to less than 3 percent--a further slowing from projected growth of 4 percent this year and a substantial drop from growth rates of 5.5 to 6 percent a year during the early 1980s. [redacted]

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### Thailand Lobbies...

Convinced that the Jenkins bill is a serious threat to the economy, government, business, labor, and student groups have

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<sup>1</sup>Bangkok last fall devalued its currency and accelerated the implementation of other reforms designed to make Thai exports more competitive internationally. Despite these measures, exports this year are expected to decline at least 2 percent from \$7.3 billion in 1984 because world markets for agricultural commodities--which account for 60 percent of Thailand's export revenues--remain depressed. [redacted]

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united to fight it in a way not seen since the mid-1970s.<sup>2</sup> Textile workers and students have staged demonstrations and have written letters to Washington, urging that the bill be scrapped. Thai parliamentarians, including the House Speaker, have lobbied their counterparts in Washington, and other prominent politicians have joined in the campaign. Top-level Thai officials, including Prime Minister Prem and Foreign Minister Sitthi, also have weighed in against the bill, although they have adopted a less confrontational tone by emphasizing Bangkok's intention to address US trade concerns. [redacted]

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Although the "official" campaign for the most part has maintained a conciliatory spirit, media commentaries--and many politicians--have taken a much harsher view of the legislation. According to the US Embassy, their protests reflect the Thai's belief that they are being "picked on" at a time when they are facing serious problems--and, moreover, by a country they consider a "special friend." [redacted]

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Despite the Prem government's effort to minimize the potential damage to relations with Washington, a variety of sources indicate that the government shares the widespread belief among the Thai that the legislation is discriminatory. An ASEAN memorandum drafted by Bangkok clearly reflects the government's opinion that the bill violates that most-favored-nation principle of the GATT by exempting certain countries and groups such as the European Community, Canada, and Mexico. (See appendix B.) Bangkok also opposes the legislation as being inconsistent with the international Multifiber Arrangement's provisions and as unilaterally repudiating US commitments to bilateral trade agreements with Thailand.<sup>3</sup> [redacted]

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A better alternative to the bill, in Bangkok's view, would be a renewal of the Multifiber Arrangement on terms acceptable to all parties. Foreign Minister Sitthi also favors establishment of a trade arrangement between Washington and ASEAN as a possible long-run solution to US and Thai trade concerns, according to the US Embassy. If Washington does not drop the bill, however, Bangkok will probably lobby for exclusion from it or for an amendment that would soften the bill's impact on Thailand. [redacted]

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<sup>2</sup>Students, workers, and politicians played a leading role in the public demonstrations that toppled the military dictatorship in 1973. Between 1973 and 1976, the activities of these and other pressure groups reached an unprecedented level. [redacted]

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<sup>3</sup>The Multifiber Arrangement--negotiated between producing and consumer countries--sets guidelines under the auspices of the GATT for bilateral textile and clothing trade arrangements. [redacted]

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...With Carrots and Sticks

Prem is willing to make concessions on some bilateral issues to gain leverage against the bill--and to protect US-Thai relations [redacted]. For example, he recently instructed the government tariff commission to reconsider the tariff rate on cotton after renewed US complaints that a duty increase last fall has led to a sharp drop in the United States' share of Thai cotton imports.<sup>4</sup> [redacted]

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[redacted] According to the US Embassy, additional compromises on US concerns such as protection of intellectual property rights and trademarks are possible, although some Thai officials oppose further concessions because they believe that enactment of the Jenkins bill is inevitable. [redacted]

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Despite Prem's desire to avoid confrontation with the United States or to risk damaging overall relations, other Thai politicians have threatened retaliation if the bill is enacted. Kukrit Pramot, leader of the Social Action Party (SAP)--the largest party in the Cabinet--has said that Bangkok should suspend cooperation with the United States on narcotics suppression and on refugee issues. Even longtime US supporters have called on ASEAN to ban imports of US products, prohibit US ships from the region, and restrict the use of US airlines for cargoes originating in or passing through the area. Moreover, Thai academics as well as politicians have hinted that the purchase of US F-16s should be reconsidered, arguing that Thailand's scarce foreign exchange should not be allowed to flow to the United States if Washington curbs Thai exports. [redacted]

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Looking Ahead

We believe that even a watered-down version of the bill would pose serious problems for Prime Minister Prem. [redacted] following last month's coup attempt, Prem needs to demonstrate credible leadership--both on the domestic front and in defending Bangkok's interests in the international economic arena--to counter charges that he has been ineffectual. US enactment of any protective legislation affecting Thailand--such as the Jenkins bill--would, we believe, provide fresh ammunition to Prem's opponents. [redacted]

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<sup>4</sup>Bangkok will lower the import duty on cotton by 40 percent, partially offsetting a threefold increase in the tariff last fall that was part of an across-the-board tariff hike aimed at generating additional government revenues. [redacted]

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Moreover, although Prem has demonstrated an ability to survive political difficulties, we believe the fallout from a sharp cutback in textile exports would increase the chances of another coup attempt.

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If there is a significant loss of textile jobs and earnings, Prem will, at a minimum, face increased pressures from domestic interest groups. The opposition Thai Nation Party--whose leaders include many wealthy businessmen with interests in the textile industry--undoubtedly would step up its attacks on the government in a bid to force its way into the ruling coalition--or to replace Prem. Prominent bankers and private economists who have publicly criticized government economic policy would probably become much more vocal, as would labor groups. Members of Prem's coalition might try to dump him as well. The SAP in particular--the Prem government's mainstay--is trying to distance itself from Prem's economic policies to avoid blame for the country's problems, according to the US Embassy.

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Although sharp retaliation seems unlikely given Bangkok's vested interests in maintaining good relations with the United States, we believe that domestic political pressure would force Prem to take action against some US interests if the bill is enacted. The Embassy reports that cotton and other US agricultural exports are the most likely targets. We believe that Bangkok also might become less cooperative on other US concerns such as narcotics suppression.

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Even if the bill is dropped, the overall US-Thai relationship may cool somewhat, at least in the short term, because Bangkok apparently is beginning to regard Washington as an unreliable trade partner. Bangkok most likely will become less willing to go along with the US position on issues where it views Thai--or ASEAN--interests as diverging from Washington's, and it will probably become more vocal in expressing reservations about US policies, particularly on trade. We believe that the

<sup>5</sup>Stagnant export earnings and depressed farm incomes were cited by the coup plotters as a key motivation behind their attempted overthrow of the government. Although the opportunity for personal financial and political gain appears to have been a more likely reason, the abortive coup highlights Prem's vulnerability on economic issues.

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Thai also will work harder for closer economic cooperation within ASEAN--particularly as a lobbying group against the United States. [redacted]

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In addition, Bangkok probably will immediately step up efforts to expand its ties with other trading partners--including the Soviet bloc, the Middle East, Africa, and Latin America--in order eventually to reduce its dependence on the US market. The US Embassy reports that after a recent visit by a high-ranking Soviet trade delegation, Prem has agreed to increase trade with the USSR despite Bangkok's basic distrust of the Soviets. Thai officials say that the Soviets have offered to purchase textiles, tapioca, and sugar, in hopes of a Thai invitation to Soviet Deputy Prime Minister Ryabov, who is scheduled to visit Southeast Asia at the end of October. [redacted]

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Appendix A

## Why Textiles Head the List of US-Thai Trade Frictions

Textile and garment manufacturing is Thailand's most important industry, accounting for a quarter of manufacturing value-added and over 5 percent of GDP. The industry also is the largest manufacturing employer, with about 450,000 employees, or almost a third of the manufacturing work force. [redacted]

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Textiles and garments, moreover, are Thailand's most important manufactures export, and the third-largest foreign exchange earner after rice and tourism. Exports of textiles and garments last year amounted to 11 percent of the country's total merchandise receipts, earning about \$800 million. From the US perspective, however, Thailand is a small exporter, and its textile products account for less than 2 percent of total US imports of textiles and garments. [redacted]

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As originally submitted to Congress, the Jenkins bill would cut Thailand's quotas for 1985 to 127.5 percent of 1980 levels--a rollback of 64 percent from last year's exports to the United States. Growth in subsequent years would be limited to 1 percent per year. Thai officials estimate that enactment of this version of the bill would probably cause a loss of more than a fifth of the country's textile jobs as well as a huge loss in foreign exchange earnings. Under a proposed amendment to the bill, however, 1984 would be used as the base year for calculating the new quotas. In this case, Thailand's textile exports to the United States instead would be reduced 4 percent. [redacted]

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Compounding friction over the bill is a recent US embargo of Thai garments for the remainder of 1985--which Bangkok reluctantly accepted because 1985 quotas already have been filled--and a reduction of Thailand's 1986 quotas to pay back overshipments in 1984. According to the US Embassy, the three-month halt in shipments to the United States will cause up to a 1.5-percent drop in total export earnings for 1985 and the loss of 50,000 to 100,000 jobs as many small firms crumble. Moreover, the Embassy believes that the embargo will have a significant long term impact on the Thai textile industry because some foreign customers will switch permanently to other suppliers. [redacted]

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Appendix B

Thailand Leads ASEAN Opposition to the Jenkins Bill

The potential impact of the Jenkins bill varies across ASEAN, with Thailand, the Philippines, and Indonesia likely to suffer the greatest losses. We believe that all of the members of ASEAN, however, would look upon enactment of the bill as an act of discrimination against Asia and an indication that Washington is insensitive to the region's needs during a period of economic difficulty. [redacted]

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Bangkok has emerged as the leader of ASEAN's opposition to the bill because it stands to lose the most, both financially and possibly in terms of domestic political stability. Moreover, we believe the Thai view the bill as one more instance of being bullied by Washington in an increasing number of US-Thai trade disputes. [redacted]

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In addition to drafting a group memorandum on trade and economic relations with the United States, Bangkok is actively promoting an ASEAN economic summit for 1987, where it will press its Southeast Asian neighbors for greater cooperation in boosting trade within ASEAN and in forming an effective lobbying group on extraregional trade issues. If the bill is enacted, we believe that Bangkok also will attempt to coordinate a group protest, and possibly to impose sanctions such as a halt to imports of US cotton. [redacted]

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Philippine textile exports to the United States--which amount to almost two-thirds of the country's total textile exports--would be reduced 20 percent under the Jenkins bill. At least 20,000 workers would lose their jobs, and total export earnings would drop about 1.4 percent. We believe this would complicate Manila's efforts to cope with the country's foreign debt crisis and its increasingly militant labor force. [redacted]

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Indonesia's textile exports to the United States would be cut 90 percent under the bill, halving its total textile exports. Although textiles and garments represent only 2 percent of the country's total merchandise receipts, the United States has taken the lion's share of the industry's recent export growth, and passage of the bill probably would end Jakarta's hopes that textile exports in the future could partially offset declining oil revenues. [redacted]

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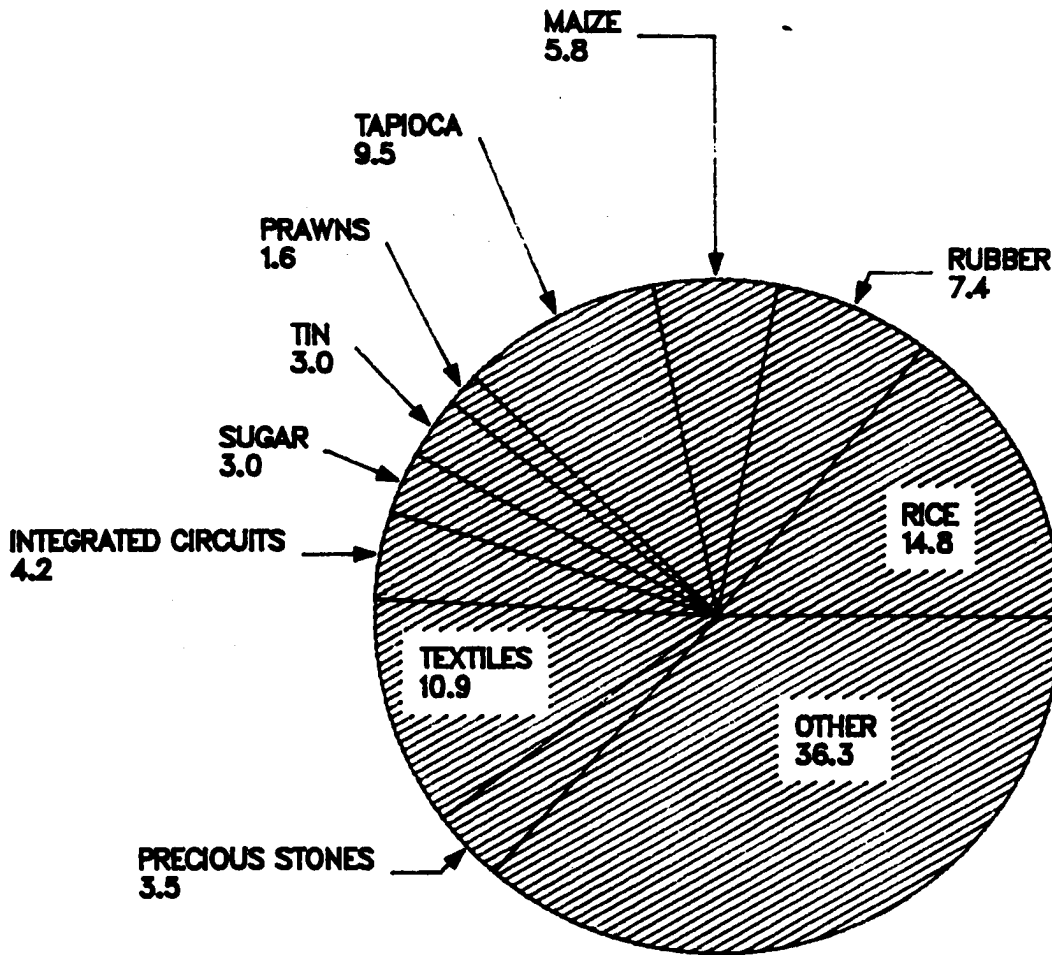
Malaysia and Singapore would not be badly hurt by the Jenkins bill because the United States takes just a small share of their total textile exports--which amount to only a minor share of merchandise exports for both countries. Nonetheless, we



expect Malaysia and Singapore to support the other ASEAN members' objections to the bill on the ground that it is unfair to Asian exporters.

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# THAILAND'S EXPORTS 1984



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