

# **The Impacts of the Thailand-U.S. Free Trade Agreement on the Automotive Industry: Gains from Trade, Adjustments Needed, and Employment Implications**

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## **1. INTRODUCTION**

Automotive and component manufacturers comprise the world's largest industry, employing 3-4 million workers directly and about another 9-10 million indirectly in parts and components. The automotive industry is also highly linkage-intensive, both forward and backward to other sectors. The automotive industry therefore plays a central role in global trade for both developed and developing countries and it usually is an important matter in trade negotiations.

Further, the automotive industry is one of the most important components in a country's process of industrialization. Owing to the intensity of global competition, Free Trade Agreement (FTA) issues have been raised to promote the volume of trade and economic growth in various countries. An FTA is likely to have different impacts on different sectors, according to the level of protection and patterns of comparative advantage. This paper examines the impact of the Thailand-United States FTA on the automobile industry. It starts by analyzing various issues such as the likelihood of the FTA formed between the two countries benefiting the automotive industry. It also discusses this sector's likely impact on trade and investment flows between both countries as well as other possible linkages that might be strengthened through an FTA. The automotive industry will be analyzed and classified into three sub-sectors: (1) automobile/car assembly, (2) spare parts and components, and (3) motorcycles.

The automotive sector provides a cross-section of United States-Thai bilateral trade and protection patterns and the comparative advantage of industrial structure between both countries. The methodology combines the analytical tools to answer the following set of questions. First, what are the industrial structure and bilateral trading pattern of the automotive industry between Thailand and United States? Second, how can the automotive

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\* School of Development Economics, National Institute of Development Administration (NIDA). This paper is an expanded and updated version of "Chapter 6: A Study on the Impacts of Thailand-U.S. Free Trade Agreement" prepared by TDRI for the American Chamber of Commerce. The author would like to thank Miss Tassanee Piyaniirun for her excellent research assistance.