

Thailand Delays Free-Trade Moves

U.S. Talks, Japan Pact Put On Hold as Turmoil Deals Blow to Thaksin's Agenda

By James Hookway

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BANGKOK -- Political woes dogging Thai Prime Minister Thaksin Shinawatra are beginning to hit part of his economic agenda and the plans of major U.S. and Japanese companies.

Mr. Thaksin's government suspended thorny free-trade talks with the U.S. -- a hallmark of its economic plan -- and postponed signing a free-trade agreement with Japan.

Officials at Thailand's Ministry of Commerce confirmed Thursday that Mr. Thaksin's decision to dissolve Parliament and call a snap election for April 2, three years ahead of schedule, has put free-trade talks on hold.

"There will be no negotiating or consulting rounds until we have a new government," Thailand's chief negotiator with the U.S., Karun Kittisathaporn, told local media Wednesday.

The free-trade talks between the U.S. and Thailand had been progressing slowly, bogged down by disagreements over opening up Thailand's closely protected financial sector and intellectual-property rights. The sudden election in Thailand represents a further complication in the drawn-out process.

A former telecommunications billionaire, Mr. Thaksin has come under increasing pressure after his family in January sold its controlling stake in the company he founded, Shin Corp., to investors led by Singapore's state investment company, Temasek Holdings Pte. Ltd., in a \$1.9 billion, tax-free transaction.

Backed into a corner by a series of large street rallies pressing for his resignation, Mr. Thaksin on Feb. 24 called the election, hoping that his strong support among rural Thais would return him to office and bury the controversy.

But the election itself is turning into a fresh crisis after the main opposition parties -- which stand little chance of winning -- said they would boycott the planned vote, creating a difficult problem for Thailand's young democracy to resolve.

Foreign companies here are keeping a close eye on the developing political situation and the prospects for a swift resumption of trade talks. As well as its negotiations with the U.S. and Japan, Thailand is involved in various levels of trade talks with India, the

European Free Trade Association -- Switzerland, Norway, Lichtenstein and Iceland -- and Peru.

Two-way trade between Thailand and U.S. reached \$25.7 billion in 2005; trade with Japan was \$41.2 billion.

Thailand was scheduled to sign its free-trade pact with Japan on April 3. That will be delayed at least until a new government is sworn in. Thai trade officials said this may delay until next year the implementation of the trade pact, intended to take effect in October.

Auto manufacturers are among the companies with the most to gain from Thailand's plans to sign a swath of free-trade pacts. Companies such as Toyota Motor Corp., General Motors Corp. and Ford Motor Co. have flocked to Thailand in recent years, partly because of its large domestic market, but also because of the country's involvement in both regional and bilateral trade talks. This influx has turned Thailand into a significant offshore production and export platform, particularly for pickup trucks.

A free-trade agreement with the U.S. would potentially open a new market for Thai-made pickup trucks. Under legislation dating back to the 1960s, the U.S. levies a 25% tariff on imported pickups. That levy might be scrapped if a trade pact with Thailand is passed, creating a new rival for U.S.-made trucks.

A spokeswoman at Ford, which exports to 130 countries from Thailand, said the company is "closely monitoring the political situation in general" as well as the free-trade negotiations. Ford officials also said it was premature to comment on whether the company would export pickup trucks to the U.S. if the tariff is removed.

Mr. Thaksin and his family say they didn't break any rules in the Shin sale, which earned the family \$1.87 billion; Mr. Thaksin transferred his shares in Shin to his relatives and household help before he led his Thais Love Thais Party to an election victory in 2001.

But Mr. Thaksin's opponents say the deal was deliberately structured to avoid incurring tax, and they complain that it also passed Shin -- a major company that many Thais regard as a quasi-utility -- into the control of a foreign government.

The controversy has injected fresh impetus into a campaign to force the prime minister's resignation. Last Sunday, an estimated 50,000 people attended an anti-Thaksin demonstration, and another is planned for this weekend.

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