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Southeast Asia feared next on list for US trade sanctions

Thailand's exchange rate policy comes under Washington scrutiny

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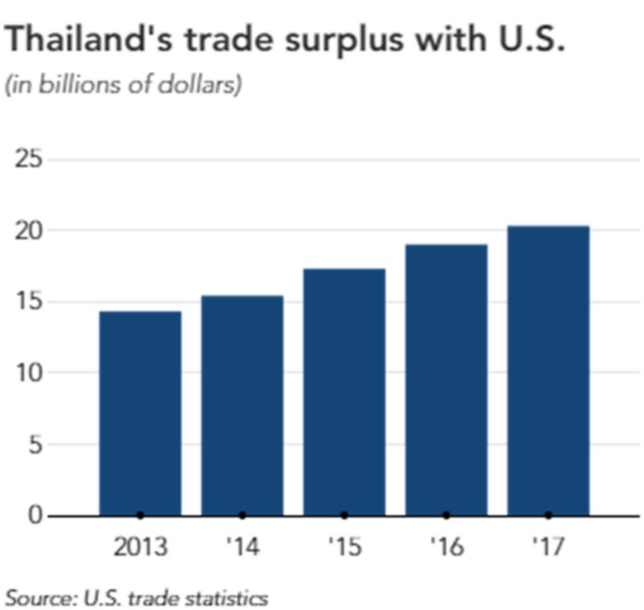
BANGKOK -- The U.S. administration of President Donald Trump could aim its protectionist measures at Southeast Asian countries, with Thailand likely the first target, an analyst said.

Thailand could find itself on a watchlist of countries the U.S. Treasury closely monitors for foreign-exchange intervention. The treasury is expected to issue a biannual report that analyzes the currency policies of trade partners this month and in October.

In the last report, five countries including Japan, China and South Korea remained on the watchlist, as they were in the previous report. In addition, Malaysia and Vietnam are also running large trade surpluses against the U.S., making them also likely targets.

Teppei Ino, senior analyst at the Singapore branch of MUFG Bank, believes Thailand meets all the criteria to be put on the watchlist.

There are three thresholds against which the U.S. measures its trade partners to determine their place on the watchlist. One is that the country has over $20 billion in trade surplus with the U.S., another is that it has a current account surplus exceeding 3% of its gross domestic product and the third is that the amount of unilateral foreign currency it purchases exceeds 2% of its GDP.



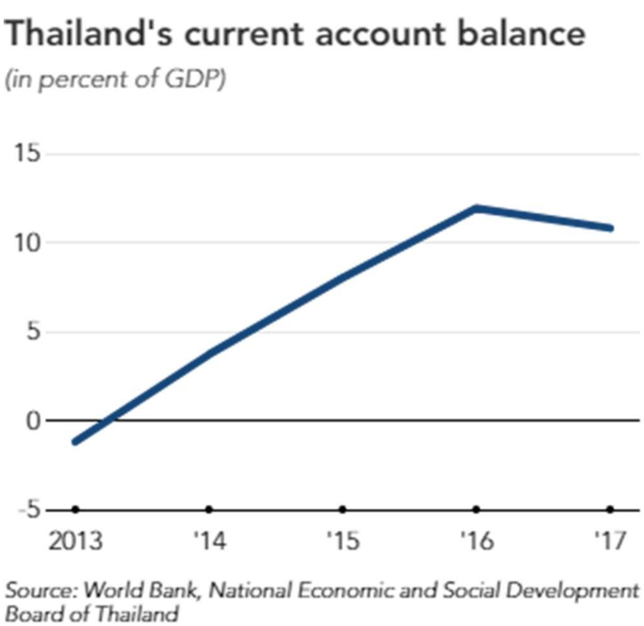
If two of these are met, the U.S Treasury may put the country on the watchlist. If all three criteria are met, the country may be designated a currency manipulator, which could bring on U.S. sanctions. But first, the U.S. will urge these countries to reduce trade surpluses and to refrain from intervening in the currency markets.

In 2017, Thailand's trade surplus with the U.S. reached $20 billion for the first time, as the main exports of computers and related components increased 9%, and rubber exports, including automotive tires, grew nearly 30% year-on-year. Its current account surplus reached 10.8% of GDP, significantly exceeding the U.S. threshold.

A large current account surplus results in upward pressure on the baht. Thailand's foreign currency reserves at the end of 2017 totaled $202.5 billion, growing nearly 20% from a year ago. The sharp rise in foreign reserves strongly suggests baht-selling and dollar-buying by the Bank of Thailand in an attempt to maintain the competitiveness of Thai exports by keeping the local currency weak.

Thailand's Ministry of Finance declined to comment to Nikkei on the matter due to "sensitivity of the issue."

If Thailand becomes the target of sanctions, it would be the first Southeast Asian country to fall. Adjusting its trade imbalance will be hard. Its exports to the U.S. has been increasing steadily and its trade surplus is structurally driven. If the country restrains interventions in the baht, which is now at a five-year high against the dollar, Thai exports will become pricier, thereby eroding their competitiveness and potentially derailing growth.



Other Southeast Asian countries that rely on exports for growth also run the risk of becoming the targets of U.S. trade measures. Vietnam had the region's largest trade surplus against the U.S. of $38.3 billion in 2017, and its foreign currency reserves grew 17% over the past year.

Malaysia's trade surplus against the U.S. is $24.5 billion, exceeding the threshold, and its current account surplus is 3% of GDP.

The U.S. has already upped the stakes on a trade war with China, which has by far the biggest surplus against it at $375.2 billion. The U.S. imposed tariffs on a raft of Chinese goods over the last few weeks, leading to retaliatory tax hikes by Beijing.

With Southeast Asian nations now possibly facing similar action from the U.S., the outlook for the global economy could worsen, analysts said