The Art of negotiation on US tariff hike

- Thailand faces a critical trade-off in U.S. tariff negotiations: lower tariffs in exchange for higher-value imports from the U.S. to maintain export and FDI competitiveness.
- Matching Vietnam's 20% tariff is key but risks hurting local sectors.
- A strategic mix of tariff cuts, sector-specific imports, and protective subsidies will be key to preserving Thailand's economic interests.

Thailand is now under US tariff dilemma

The U.S.-Thailand trade negotiation has escalated to its highest level of tension after the U.S. announced a 36% tariff on imports from Thailand, set to take effect on August 1, 2025. This announcement comes as Vietnam, a key trade competitor for Thailand in many industries, successfully negotiated to settle the tariff deal with U.S. at a much lower tariff rate of 20% (vs original 46%). In bargaining for a better tariff, we think Thailand will need to not only lower the tariff rates on the imported products from US but also to import higher import values for the products that US is the world's major producer, including arm weapons, aircraft, energy, and grains.

Art of negotiation: lower US tariff on Thailand's higher imports

In negotiations against U.S. for the tariffs, there are three critical factors needed to be embraced in - tariff rate (36%), export/import values to/from US, and type of products to be exported and imported to/from US. Depending on the comparative advantages of Thailand vs Vietnam, Thailand's arch rival for exports and FDIs, in each product category, the final bargaining power will dictate the eventual values of tariff and values of exports and imports.

A high stakes as exports and FDIs in jeopardies

On the tariff front, we think the impact will not only to the danger of lower exports to US, less comparative advantages particularly compared to Vietnam, Thailand's arch-rival country competing head-to-head for the shares of exports, FDIs, and tourism. The strategic analysis of Thailand's 'bargaining chips' becomes paramount to avoid the severe economic damages, hence Thailand must use its available leverage to offer the "Sector-Specific Market Access" that the U.S. has demanded. The key product groups for consideration are as follows:

US imports could harm Thai domestic industries

While Thailand is a net importer of energy (crude oil, LNG), aircraft, and weapons, the agricultural and animal products are Thailand's strengths, mostly to serve domestic demand. To sweeten US tariff negotiation, we think Thailand needs to import agricultural products (corn, soybean, wheat, pork, beef) even this will impact domestic markets. Our analysis on impacts of US imports to Thai markets in three tariff scenarios - 36%, 20%, 18% - plus certain imports from US, found that Thailand will lose export value (on higher tariff) and higher import value from US, achieving lower trade surplus mandated by US, resulting in lower trade surplus with US down from USD45b to USD14b (36% tariff), USD24b (20%), and USD25.4 (18%).

What should Thailand strive for resolving the U.S. tariff dilemma?

We think the real challenges for Thailand will be on the question "How to protect Thai producers from the threats of US import products while lower tariff rate?". Thailand needs to 1) lower tariff rate from 36% to 20% (=Vietnam) to retain Thailand's competitiveness in FDIs and exports; 2) opening agricultural markets to US but simultaneously establishing funds for subsidies; 3) import more energy; 4) purchase aircraft; 5) acquire armory weapons amid the border disputes with Cambodia.

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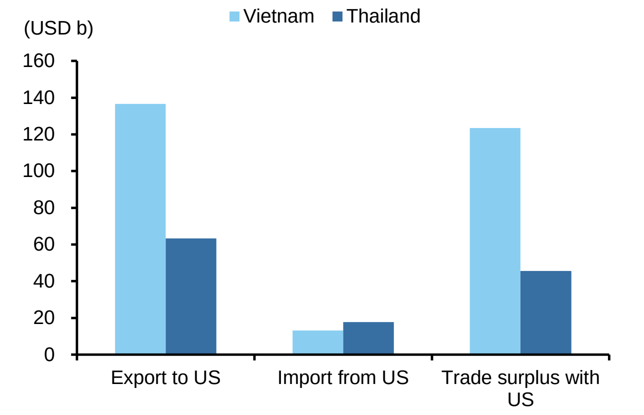
What lesson are learned for Thailand from the U.S.-Vietnam Trade Deal?

Impact on Thailand's export sector

The U.S.-Thailand trade negotiation has escalated to its highest level of tension after the U.S. announced a 36% tariff on imports from Thailand, set to take effect on August 1, 2025. This announcement comes as Vietnam, a key trade competitor for Thailand in many industries, successfully negotiated to settle the tariff deal with U.S. at a much lower tariff rate of 20% than its original tariff of 46%.

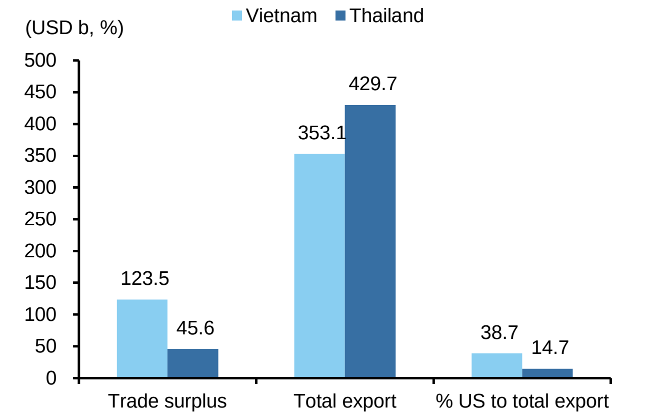
This 16%-pts tariff gap drop is not merely a number; it is a "wall" that will immediately and severely erode the competitiveness of Thai products in the U.S. market. While Vietnam exports a far higher value to U.S. at USD136.6b (+19.3% y-y), significantly higher than Thailand's export to US at USD63.3b (+13.7% y-y). U.S. exports to Vietnam at USD13.1b vs to Thailand at USD17.7b, resulting Vietnam having trade surplus of USD123.5b, 2.7x higher than Thailand's surplus of USD45.6b in 2024.

Exhibit 1: Values of exports, imports, and trade surpluses to/from US (Vietnam vs Thailand)



Sources: Trading economics and CEIC data

Exhibit 2: Total export value, trade surplus, and % export to US as % of total export (Vietnam vs Thailand)



Sources: Trading economics and CEIC data

Art of negotiation: In the negotiations against U.S. for the tariffs, there are three critical factors needed to be embraced in

Factor#1: tariff rate. This is the most evident and critical for both Thailand and Vietnam given Vietnam has already settled with 20% tariff on all products exported to U.S. while Thailand still faces 36% tariff.

Factor#2: Export/import values to/from US. These figures will play important roles in determining the final values of exports and imports and the trade surpluses

Factor#3: Type of products to be exported and imported to/from US. Depending on the comparative advantages of Thailand and Vietnam in each product category, the final bargaining power will dictate the eventual values of tariff and values of exports and imports

Exhibit 3: Key figures and assumptions

2024 value (USD b)	Vietnam	Thailand
Export to US	136.6	63.3
Import from US	13.1	17.7
Trade surplus with US	123.5	45.6
Total export	353.1	429.7
% US to total export	38.7	14.7
Tariff rate (%)	**Vietnam**	**Thailand**
Tariff rate export to US		
Worst case	20.0	36.0
Base case	20.0	20.0
Best case	20.0	18.0
Transshipment	40.0	50.0
Tariff rate import from US	-	-
Import value growth from US (%)	50.0	50.0
Import value growth from US (USD b)	6.6	8.9

Sources: Globlex Research

We assume three scenarios for the US tariff to Thailand's exports and imports to/from US, with the worst case at the current 36%, base case at 20%, and best case at 18%, all with additional assumption of higher imports from US in exchange for the lower tariff rate.

Economically in numbers, in any cases, Thailand will lose its export value due to the higher tariff rate, higher import value from US, both resulting in lower trade surplus to achieve the goal of US government. However, we think the real challenges for Thailand will be on the question "How to protect Thai producers from the threats of import products from US?".

Exhibit 4: Three scenarios of Thailand's US tariff rate (36%/20%/18%)

Tariff (USD b)	Vietnam	Thailand
Worst case tariff rate	**20.0**	**36.0**
Tariff	27.3	22.8
Net export value after tariff	109.3	40.5
% change from tariff (%)	(20.0)	(36.0)
Import value from US	19.7	26.6
Trade surplus with US	89.6	14.0
% change in trade surplus with US	(27.4)	(69.4)
Base case tariff rate	**20.0**	**20.0**
Tariff	27.3	12.7
Net export value after tariff	109.3	50.6
% change from tariff (%)	(20.0)	(20.0)
Import value from US	19.7	26.6
Trade surplus with US	89.6	24.1
% change in trade surplus with US	(27.4)	(47.2)
Best case tariff rate	**20.0**	**18.0**
Tariff	27.3	11.4
Net export value after tariff	109.3	51.9
% change from tariff (%)	(20.0)	(18.0)
Import value from US	19.7	26.6
Trade surplus with US	89.6	25.4
% change in trade surplus with US	(27.4)	(44.4)

Sources: Globlex Research

"Clear and present danger" on Thailand's domestic producers

In bargaining for a better tariff, we think Thailand will need to not only lower the tariff rates on the imported products from US but also to import higher import values for the products that US is the world's major producer, including arm weapons, aircraft, energy, and grains.

On the tariff front, we think the impact will not only to the danger of lower exports to US, less comparative advantages particularly compared to Vietnam, Thailand's arch-rival country competing head-to-head for the shares of exports, FDIs, and tourism.

However, the 36% tariff is not yet the final outcome, but rather the "default situation" if negotiations fail by the August 1st deadline. This means Thailand still has a limited but critical opportunity to negotiate for a better result.

This is where the strategic analysis of Thailand's 'bargaining chips' becomes paramount. To avoid the severe economic damage outlined above, Thailand must use its available leverage to offer the "Sector-Specific Market Access" that the U.S. has demanded. The key product groups for consideration are as follows:

Exhibit 5: Export values for 7 key sectors to U.S. market from Thailand and Vietnam

Sector	Thailand to U.S.	Vietnam to U.S.	% of export		% of total export		% of GDP	
			T-U	V-U	Thailand	Vietnam	Thailand	Vietnam
	(USD b)	(USD b)	(%)	(%)	(%)	(%)	(%)	(%)
Electrical, electronic equipment	17.6	36.0	31.9	37.0	5.9	10.2	3.3	8.4
Machinery, nuclear reactors, boilers	13.6	9.7	24.7	9.9	4.5	2.7	2.6	2.2
Rubber	5.1	1.5	9.2	1.6	1.7	0.4	1.0	0.4
Plastics	1.4	2.4	2.6	2.5	0.5	0.7	0.3	0.6
Articles of iron or steel	1.2	1.2	2.1	1.2	0.4	0.3	0.2	0.3
Meat, fish and seafood preparations	0.9	0.6	1.7	0.7	0.3	0.2	0.2	0.1
Articles of apparel	0.9	14.3	1.6	14.7	0.3	4.0	0.2	3.3
Total	40.6	65.6	73.7	67.5	13.5	18.6	7.7	15.3

Sources: Trading economics and Globlex research

US imports could harm Thai domestic industries. While Thailand is a net importer of energy (crude oil, LNG), aircraft, and weapons, the agricultural and animal products are Thailand's strengths, mostly to sufficiently serve domestic market.

Hence, we think Thailand needs to import certain agricultural products such as corn, soybean, wheat, pork, beef, to name a few, we think it would be disastrous to Thai farmers and meat producers.

As a result, we conduct analysis on the potential impacts of US imports to Thai domestic markets, which we found that the industries in high jeopardy are pork farmers and animal feeds on the direct substitution impact and rice, rubber, electronics components, are in jeopardy on the indirect impacts as Vietnam could gain more advantages on these products, which are Thailand's major export products.

Group 1: High-Sensitivity Products

This group includes products where opening the market would directly impact domestic farmers and producers. These are the top priorities for protection in the negotiations.

Pork: This is the issue with the highest sensitivity, as Thailand maintains significant non-tariff barriers (NTBs) to restrict imports. Furthermore, domestic production costs are higher than in the U.S. (Thailand THB78/kg vs. U.S. THB50/kg), driven by more expensive animal feed prices under a monopoly by major corporations and the costs associated with preventing African Swine Fever (ASF). Since 2021, the number of swine farmers has been continuously decreasing (-7.7% CAGR and -0.97% y-y), as higher pork prices in the recent past have caused consumers to switch to other types of meat. Opening the market would allow cheaper pork to compete directly with Thai farmers, further impacting more than 148,881 farmers, most of whom are small-scale operators.

Exhibit 6: Swine Production, Export, and Consumption Volume

Item	Unit	2020	2021	2022	2023	2024	Growth (%)	2025E
Production Volume	M head	22.1	19.3	15.8	20.5	21.7	0.3	21.4
Production Volume	mt	1.7	1.4	1.2	1.5	1.6	0.3	1.6
Export Volume	mt	0.0	0.0	0.0	0.0	0.0	(34.8)	0.0
Import Volume	mt	0.0	0.0	0.0	0.0	0.0	(17.7)	0.0
Consumption Volume	mt	1.5	1.3	1.2	1.5	1.6	3.2	1.6

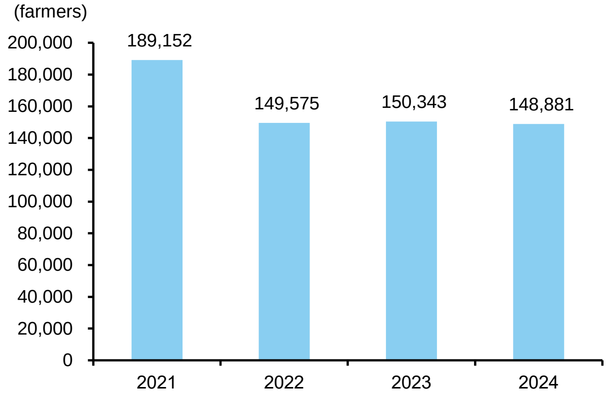
Sources: Department of Livestock Development

Corn: This is another high-sensitivity product, as domestic corn is currently protected by tariffs.

- **Production vs. Demand:** Thailand's domestic production is insufficient, covering only about 55% of demand. The 2024/25 production is forecast at 4.74t (+2.8% y-y), while annual demand is approximately 8.5 million tons.
- **Imports and Tariffs:** This gap necessitates imports, which are forecast to be 1.5 million tons in 2024/25. Imports from non-ASEAN countries outside the quota face a high tariff of 73%.

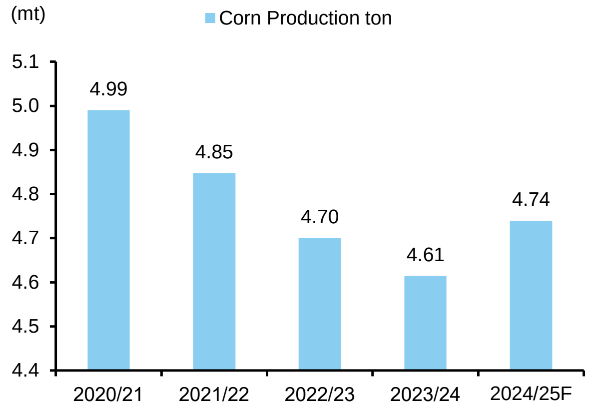
Therefore, if Thailand reduces corn import tariffs and increases imports from the U.S., domestic corn farmers would be severely impacted by lower prices (domestic prices are THB 9-10/kg, while international prices are around THB 5-6/kg) and increased in competition.

Exhibit 7: Number of pig farmers



Sources: Office of Agricultural Economics

Exhibit 8: Thailand's Corn Production



Sources: Office of Agricultural Economics

Group 2: Products to be used as Bargaining Chips

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This group includes products where Thailand can offer market access as a "bargaining chip," either because the country already relies on imports or because it would benefit domestic industries.

1) Soybeans and Wheat: Import as much as we can

These are the clearest examples of products Thailand can "concede" with low domestic costs, as the country is already a massive importer of both.

Soybeans: Soybean production in Thailand is continuously decreased since 2020 and expected to lower this year (-6% y-y) and, in 2023/24, produces only about 17,000 tons but needs to import over 3.2mt for its vegetable oil and animal feed industries. The government currently allows for unlimited, duty-free imports.

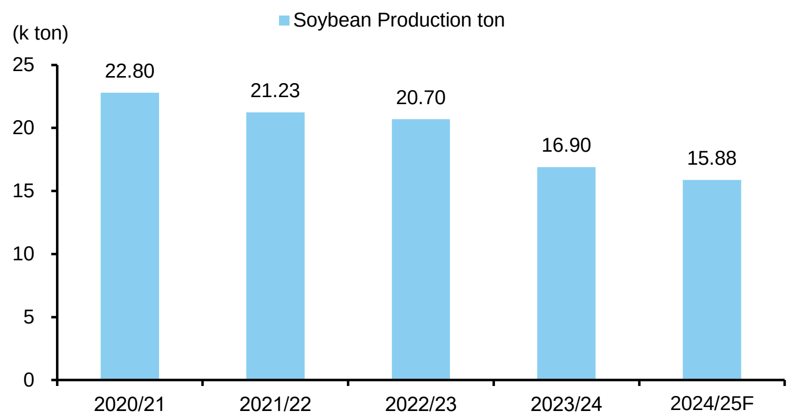
Wheat: The situation is similar. Domestic production is only 300-400 tons, while imports are expected to reach 3.2mt in 2024/25.

Benefits of Opening the Market:

Reduced Livestock Feed Costs: Access to potentially cheaper soybeans and feed wheat would help lower costs for the Thai animal feed industry, which relies on imports for 50-60% of its components. These savings could subsequently lower production costs for the livestock industry (e.g., chicken and pork).

Support for Food and Vegetable Oil Industries: Most imported soybeans (about 70%) are used in oil extraction plants to produce cooking oil, and imported milling wheat is essential for the baking and food processing industries. A stable and potentially cheaper supply of these raw materials would benefit these sectors.

Exhibit 9: Thailand's Soybean Production



Sources: Office of Agricultural Economics

2) Energy (LNG - Liquefied Natural Gas)

Thailand's growing need for energy imports to ensure its security is driven by the continuous depletion of its domestic natural gas reserves in the Gulf of Thailand. This situation makes a long-term LNG purchasing agreement with a major exporter like the U.S. a high-value strategic proposal that serves interests of both nations.

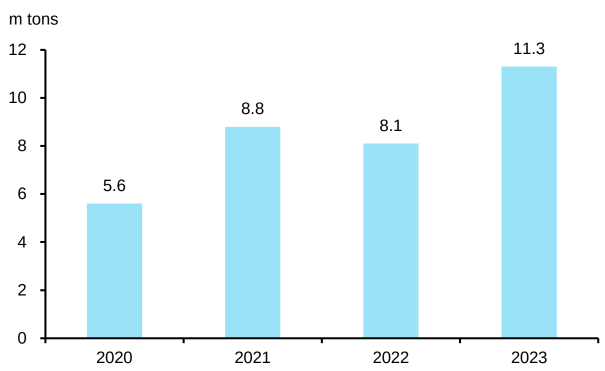
Impacts and Challenges:

The cost structure for importing LNG from the United States to Thailand is determined by four key factors:

1. The Henry Hub Natural Gas Price: The foundational cost of the gas itself.
2. Liquefaction Cost: Approximately USD3.5/MMBtu.
3. Freight Cost: The shipping distance from the U.S. to Thailand is greater than from sources like Qatar, leading to higher transportation costs. For reference, the freight cost from the U.S. to Japan/Korea is around USD2.5/MMBtu.
4. Regasification Cost: Based on PTT's rate, this is approximately $0.5-0.6/MMBtu.

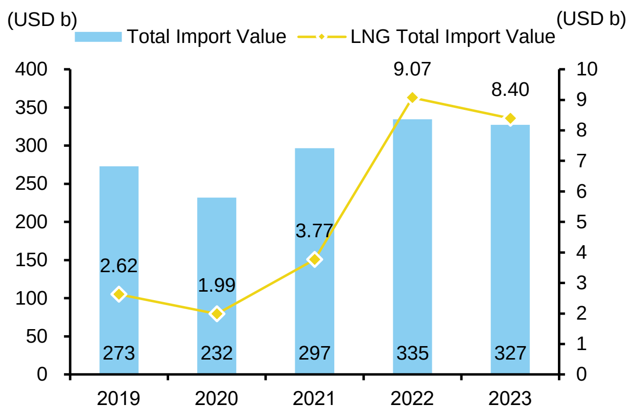
Therefore, the most critical factor is the final "Landed Price " that Thailand pays. This price must be competitive with LNG sourced from geographically closer regions, and its competitiveness ultimately depends on global market conditions at the time of procurement.

Exhibit 10: Thailand's LNG Imports Volume



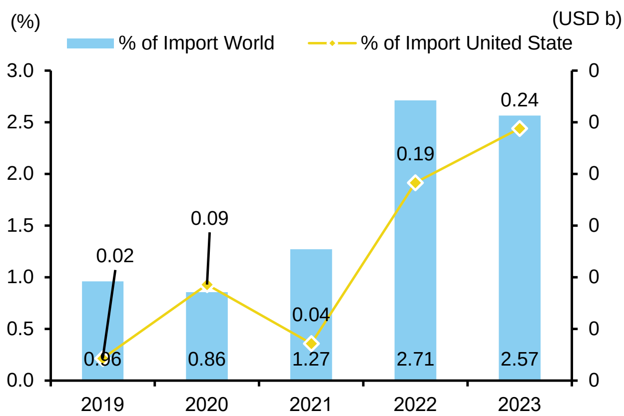
Sources: World integrated trade solution

Exhibit 11: Thailand's LNG Import Value



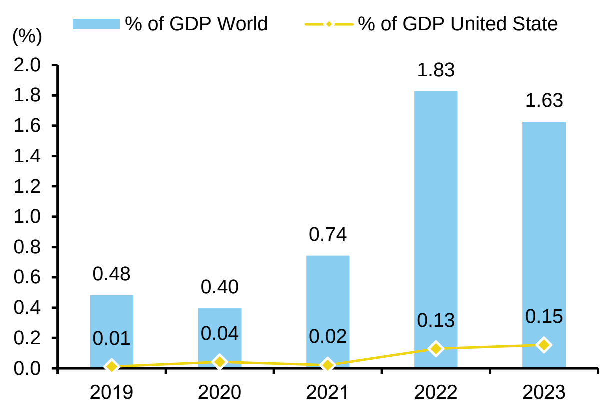
Sources: World integrated trade solution

Exhibit 12: LNG imports as a % of Total Imports



Sources: World integrated trade solution and CEIC data

Exhibit 13: LNG imports as a % of GDP



Sources: World integrated trade solution and CEIC data

3) Boeing Aircraft: From a U.S. political standpoint, particularly under the influence of Donald J. Trump, there is strong pressure for partner countries to order aircraft from Boeing rather than its European rival, Airbus. This is especially pertinent as Boeing has recently faced significant scrutiny over aircraft safety, which has impacted on its orders and stock price.

While shifting procurement from Airbus to Boeing would be a direct way to reduce the trade deficit with the U.S., Thailand faces considerable constraints. Although Thai Airways already placed a substantial order for 45 Boeing aircraft in 2024—a significant concession in itself—committing to *additional* purchases as a bargaining tool is challenging under the current circumstances for two key reasons:

Thai Airways' Financial Status: The airline has only recently stabilized after emerging from its business rehabilitation plan and must manage its finances cautiously.

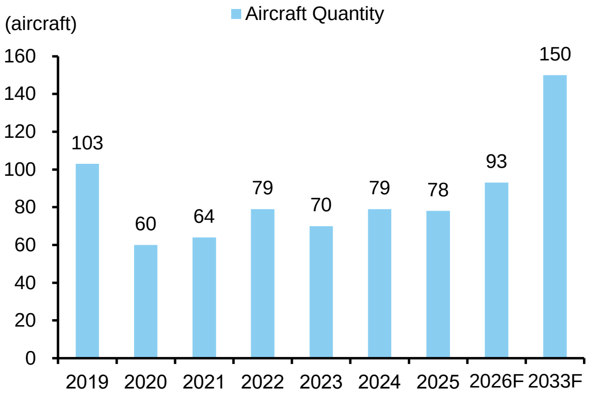
Slowing Tourism Sector: Thailand's tourism industry is showing signs of a slower-than-expected recovery.

Therefore, while the existing order for 45 aircraft is a major gesture, Thailand's ability to leverage *new* aircraft purchases as an additional bargaining chip is limited by current economic and corporate realities.

Exhibit 14: Thai Airways order 45 aircraft from Boeing

Sources: Brand Buffet

Exhibit 15: Thai Airways aircraft



Sources: Spring news and Thai Airways

Defense Equipment: Procuring defense equipment from the U.S. is another negotiation tool. Based on data from 2023, Thailand imported a total of USD417.09m worth of arms and ammunition, of which USD219.77m came from the United States.

However, there is significant room for this share to grow. In 2024, the U.S. share of Thailand's arms imports was only 40%. This indicates that Thailand has the potential to increase its procurement from the U.S. by shifting purchases away from other countries. A commitment to do so would serve as a powerful bargaining chip, as it not only helps reduce the trade deficit but also strengthens strategic security relations.

Increasing imports from Group 2 could significantly help reduce the U.S. trade deficit with Thailand. This could, in turn, allow Thailand to negotiate a tariff rate on its exports that is similar to or even lower than Vietnam's, thereby limiting the impact on Thai exports that we stated in part 1.

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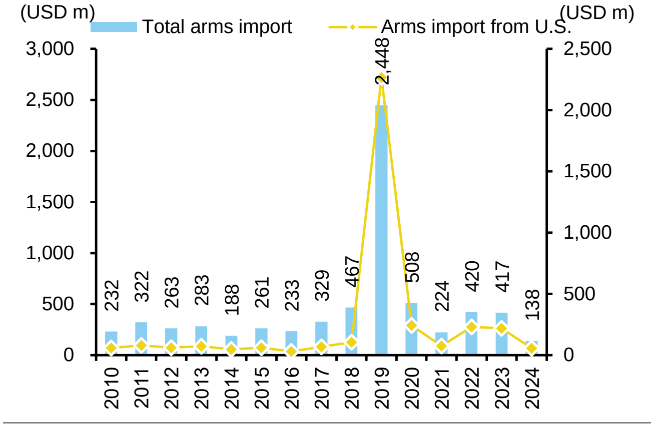
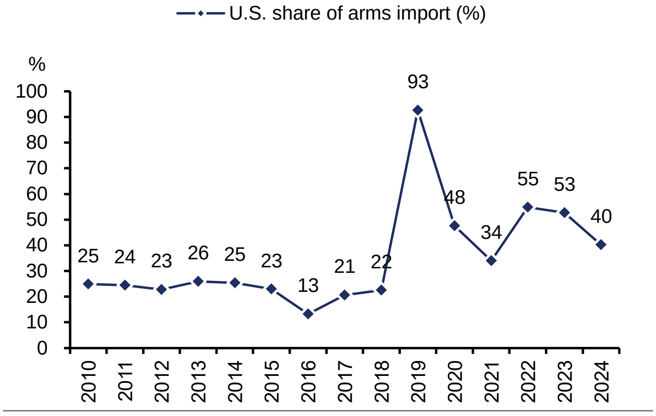
Exhibit 16: Thailand's Arms Import Value



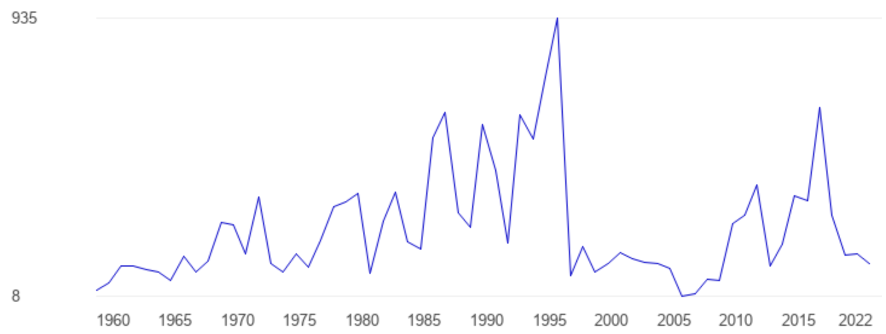
Sources: Ministry of Finance and CEIC data

Exhibit 17: U.S. Share of Thailand's Total Arms Imports



Sources: Ministry of Finance and CEIC data

Exhibit 18: Thailand's historical arm import value (USD b)



Sources: The Global Economy

What should Thailand strive for resolving the U.S. tariff dilemma? In sum, Thailand needs to achieve goals of lowering tariff rate by

Lower the tariff rate from 36% to 20%, on par with Vietnam and lower than Indonesia's 32% (likely drop to 20-25%) to retain its export competitiveness in FDIs and exports

Opening certain markets to US companies, which unfortunately in agricultural sectors including animal feeds for corn and soybeans, food for wheats used to produce wheat start and flour, pork and beef products. To mitigate the impacts, government needs to establish funds to subsidize, guarantee prices of corn, soybeans, pork, beef raised and grown domestically.

Imports more energy, in particular crude oil and LNG, not only for additional demand growth in the future but also to substitute the lower supply structurally declining in the Gulf of Thailand and imports from Myanmar. This could made possible by replacing imports from other countries not under long-term contracts with US imports.

Aircraft imports mainly for Thai airlines. THAI airways has already made a contract to purchase 45 aircraft from Boeing and we think other Thai airlines like BA should join hand in importing aircraft from US.

Armory weapons. This is the most arguable issue given Thailand has needs to import weapons from US, what type of weapons to be imported, and what budget to be allocated. All should be carefully considered for the country's benefit.

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Analyst Certification

Suwat Sinsadok, Register No. 020799, Globlex Securities Public Company Limited

RECOMMENDATION STRUCTURE
Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.