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Looking Toward the “New Era” Features and Background of the Japan-Thailand Economic Partnership Agreement

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Abstract

This paper examines Thai-Japanese relations through analysis of EPA. There are two questions. The first involves the features of JTEPA as an EPA. By scrutinizing the features of the EPA, we would like to approach the institutional framework of the “new era” which will be brought about by JTEPA. The second question is how did the governments of Thailand and Japan come to conclude JTEPA? By reviewing the focal points of the negotiations, we will describe the background of the formation and aims of JTEPA. Finally, we conclude that JTEPA is a culmination of the existing Thai-Japanese relations, and was built based upon the existing divergence of economic institutions. At the same time it upgrades the bilateral partnership to a framework for multilateral cooperation by considering assistance toward Cambodia, Laos and Myanmar and Vietnam. The author would like to emphasize that JTEPA was designed based on the idea of a further integration of CLMV and Thailand, an original member of ASEAN

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Looking Toward the “New Era”

Features and Background of the Japan-Thailand Economic Partnership Agreement

Maki AOKI-OKABE¹

Introduction

When the Agreement between Japan and the Kingdom of Thailand for an Economic Partnership (abbreviated TJEP or JTEPA) was signed in April 2007, the heads of the two governments heralded “a new era of strategic partnership” between the two countries.

What does this “new era” mean? The conclusion of the EPA in itself was actually an epoch-making event for Japan. “Economic Partnership Agreement,” usually abbreviated as EPA, is the official name of free trade agreements (FTAs) pursued by Japan. Until the end of the 1990s, as is well known, the Japanese government focused on multilateral trade liberalization and was reluctant to conclude FTAs. Its first EPA was concluded with Singapore (The Japan-Singapore Economic Partnership Agreement: JSEPA) in 1998, and was followed by EPAs with Mexico, Malaysia, the Philippines and Thailand. Though the Japanese government continues to emphasize multilateral trade liberalization under the World Trade Organization (WTO), it has also embarked on EPAs/FTAs as complementary tools for multilateral liberalization. In this sense, the EPAs mark a “historic shift” in Japanese trade policy.

What will JTEPA bring to the Thai-Japanese relationship? One of the obvious reasons why

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JTEPA was concluded is to expand economic interaction between two countries. As an FTA, JTEPA is an agreement to develop such interactions by removing unnecessary barriers to cross-border flows of goods, investment, services and persons. Both academic and media discussions on the choice of items to be included in the liberalization and the extent of the economic impact on different sectors attracted public attention during the negotiations.

The expected expansion of bilateral economic interactions, however, seems to exemplify merely a part of the “new era.” The joint statement appropriately declare that JTEPA was concluded with the aim to “take onto a higher plane our partnership for the mutual benefit of our peoples and lay a solid foundation for an East Asian community” (MOFA 2007).² In addition to questions about the economic impact, what needs to be asked now is why Thailand and Japan needed to further strengthen their relationship.

This paper looks at why Thai-Japanese relations marked this “new era” in the form of the EPA. This question can be broken down into two operational questions. The first involves the features of JTEPA as an EPA. What is an EPA? How is it different from an FTA? By scrutinizing the features of the EPA, we would like to approach the institutional framework of the “new era” which will be brought about by JTEPA. The second question is how did the governments of Thailand and Japan come to conclude JTEPA? By reviewing the focal points of the negotiations, we will describe the background of the formation and aims of JTEPA. Finally, we conclude that JTEPA is a culmination of the existing Thai-Japanese relations, and was built based upon the existing divergence of economic institutions. At the same time it upgrades the bilateral partnership to a framework for multilateral cooperation by considering assistance toward the so-called late-comers of ASEAN including Cambodia, Laos and Myanmar and Vietnam (abbreviated as CLMV). The author would

² “Joint Statement at The Signing of The Agreement between Japan and The Kingdom of Thailand for an Economic Partnership,” Tokyo, 3 April 2007 (URL: <http://www.mofa.go.jp/region/asia-paci/thailand/epa0704/joint.html>, Last downloaded on 5 October 2005).

like to emphasize that JTEPA was designed based on the idea of a further integration of CLMV and Thailand, an original member of ASEAN.³

What is JTEPA? Institutional feature

In order to grasp the character of JTEPA, it is best to start from an examination of EPA's its institutional features. An EPA is in substance an FTA as defined by Article 24 of the General Agreement on Tariffs and Trade (GATT). However, the Japanese Ministry of Foreign Affairs (MOFA), for example, often describes an EPA as a regional trade arrangement that goes "beyond WTO." In a document released in 2002, it describes an EPA as a means of strengthening partnerships in areas not covered by the WTO and achieving liberalization beyond the levels attainable under the WTO (MOFA 2002).⁴ Likewise, former Foreign Minister Taro Aso described the features of an EPA in a speech as follows:

FTAs are instruments which take up issues such as the lowering of tariffs during trade in goods and the elimination of restrictions on foreign investment during trade in services (p)remised on the existence of national borders. In contrast...EPAs are characterized by breadth of coverage and also by depth of quality, an aspect that FTAs can't even hold a candle to (MOFA [2006]⁵).

³ Whereas the author recognizes the importance of JTEPA's economic impact, it is beyond the scope of the present work.

⁴ "Japan's FTA Strategy, October 2002, Economic Affairs Bureau, Ministry of Foreign Affairs," (URL: <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html>, Last downloaded on 10 October 2007).

⁵ "The Hallmarks of Economic Diplomacy for Japan, 8 March 2006, Speech by Japanese Former Minister for Foreign Affairs Taro Aso at the Japan National Press Club," URL:<http://www.mofa.go.jp/announce/fm/aso/speech0603.html>, Last downloaded on 1 October 2007).

The Japanese government seems to emphasize the wide area of coverage as the characteristic that distinguishes an EPA from a conventional FTA.

1) FTA with assistance measures

What kinds of issues do EPAs cover? Table 1 shows the areas covered by FTAs throughout the world. Each item is classified according to the text of each agreement. The right column shows the WTO category. Since the establishment of the WTO, the domain of the GATT/WTO regime has been expanded. Rules on issues such as the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) were set up in addition to the “traditional” issue of trade in goods. On the other hand, regional trade arrangements today often cover areas that have not been regularized by the WTO regime or where there is ongoing debate over whether they should be controlled by the WTO. These new issues such as investments, competition policy, custom harmonization and environment are called “trade related matters” or “matters of non-trade concerns” depending on the viewpoint one adopts. The table shows that newer FTAs include more non-WTO issues. A noteworthy feature is the number and variety of non-WTO issues included in FTAs in Asia. Though there is one exception, the AFTA, Asian FTAs such as the JSEPA, JTEPA, JPEPA (Agreement between Japan and the Republic of the Philippines for an Economic Partnership), JMEPA (Agreement between Government of Japan and Government of Malaysia for an Economic Partnership) and China-ASEAN FTA (Framework Agreement on Comprehensive Economic co-operation between the Association of Southeast Asian Nations and the People’s Republic of China) incorporate more issues than NAFTA or the Australia-New Zealand CER (Agreement for Closer Economic Relations).

We would like to emphasize here that the non-WTO issues in FTAs can be divided into two groups. First, the FTAs between ASEAN members and Japan include a chapter on the provision of

“cooperation.” The China-ASEAN FTA also provides for cooperation, and separate memorandums of understanding have been exchanged for implementation by area. For example, Japanese education is being provided to the Philippines as part of human resource development under the JPEPA. Based on JTEPA, the governments agreed to carry out cooperation on financial market development, food safety and local-to-local linkages, for example. These cooperation projects were said to be introduced to enhance the effects of liberalization together with other measures on non-WTO issues. The most important characteristic of those measures is that they do not necessarily require any adjustment or reform of domestic institutions. This becomes clearer when contrasted with other non-WTO issues in other FTAs. For example, in the area of the environment, NAFTA obliges the signatories to build domestic institutions for environment conservation, while JTEPA provides for joint research or exchanges of specialists and technical cooperation as a part of energy cooperation.⁶ In other words, cooperation measures in EPAs are carried out in the form of assistance for capacity-building rather than with the aim to harmonize rules between the countries.⁷ In other words, EPAs can be seen as FTAs with assistance measures (Aoki-Okabe [2005]).

The Lome Convention can be mentioned as a precedent for a regional trade arrangement with assistance.⁸ Under the convention, the members of the European Community (now the EU) offered a financial assistance scheme to stabilize the income of African, Caribbean and Pacific (ACP) countries. However, the Lome Convention was not an FTA in terms of its legal status in the WTO. In addition, the relationship between the two parties changed following the conclusion of

⁶ Implement Agreement between the Government of the Kingdom of Thailand and the government of Japan Pursuant to the Article 12 of the Agreement between Kingdom of Thailand and Japan Economic Partnership, Article 45, Chapter 10 (URL: <http://www.mofa.go.jp/region/asia-paci/thailand/epa0704/implement.pdf>. Last downloaded on 10 November 2007).

⁷ The assistance aspect of EPAs can be understood more clearly when they are compared with cooperation under the China-ASEAN FTA. Most of the projects under the China-ASEAN FTA will be based on the financial support by third parties such as the Asian Development Bank. In contrast, cooperation under EPAs is implemented as a part of Japan’s official development assistance.

⁸ Governments involved in EPAs often mention Lome and Cotonou as a reference.

the Cotonou Convention in 2000. The new convention tightened the conditionality for assistance from EU to ACP countries and abolished the preferential treatment which the former had been given.⁹ The relationship has changed into one based on the nondiscriminatory principle of the WTO. The shift from Lome to Cotonou is in contrast to the EPA boom in Asia.

2) A Building Block for a Japan-ASEAN Economic Partnership System

The second feature of JTEPA is that it was designed to be part of a Japan-ASEAN economic partnership system. The negotiations were carried in parallel with those on JPEPA and JMEPA. These bilateral EPA initiatives were modeled after JSEPA, which was enacted in November 2002. Though they are independent agreements, they share a common structure, consisting of trade liberalization, measures on non-WTO issues and cooperation. Moreover, those bilateral EPAs will be governed by the rules for implementation provided by a multilateral arrangement between Japan and the whole of ASEAN. Prior to the conclusion of EPAs with Thailand, the Philippines and Malaysia, Former Japanese Prime Minister Jun'ichiro Koizumi proposed the Japan-ASEAN Comprehensive Economic Partnership (JACEP) in January 2002, and the governments concerned reached a framework agreement in October 2007. JACEP is fundamentally an agreement on modalities for trade liberalization and rules of origin for trade between Japan and ASEAN members (MOFA [2007]).¹⁰ With regard to the modalities of liberalization for trade in goods, the governments agreed that common concessions would be applied to all members concerned, and that they would exchange an offer list for tariff reduction (MOFA [2007]¹¹). On the other hand, JACEP included an agreement

⁹ On the Cotonou Convention, see Watanabe [2003: 39]

¹⁰ Nichi-ASEAN Hokatsu teki Keizai Renkei (AJCEP) Kyotei Osuji Goui, Heise 19 nen 8 gatsu, (Framework Agreement for Comprehensive Economic Partnership between Japan and The Association of Southeast Asian Nations, August 2007) , (URL: http://www.mofa.go.jp/gaiko/fta/j_asean/pdfs/ajcep0708.html. Last downloaded on 1 November, 2007).

¹¹ Nichi-ASEAN Hokatsu teki Keizai Renkei (AJCEP) Kyotei Osuji Goui, Heise 19 nen 8 gatsu, (Framework Agreement for Comprehensive Economic Partnership between Japan and The Assoc

to apply “roll-up” rules of origin and to expand the range of the items upon which the tariff rates would be applied. In the bilateral EPAs, the governments concerned likewise agreed to “consider the roll-up rules of origin between Japan and ASEAN countries to be discussed in the future negotiation¹²” Thus, those bilateral EPAs make up the details of the multilateral EPA arrangement between Japan and ASEAN (Aoki-Okabe [2003]).

So far we have outlined the feature of EPAs in comparison with other FTAs or regional trade arrangements. The major characteristics of EPA are summarized below. Firstly, an EPA can be considered a FTA with assistance measures, or an FTA that considers the economic disparities between the parties. Secondly, the EPAs make up a multilateral trade arrangement between Japan and ASEAN. As an EPA, JTEPA will also form part of such a multilateral framework along with other bilateral EPAs.

Focal Points of the JTEPA Negotiations

Let us move to the next question. How did the governments of Thailand and Japan come to the conclusion of JTEPA, an FTA with assistance measures and consisting of JACEP, a multilateral regional arrangement? What was the aim of the two governments in adding cooperation to the measures for trade liberalization and non-WTO issues? In order to answer this question, we will examine the focal points of the JTEPA negotiations.

The official negotiations for JTEPA began in February 2004. Prior to the official negotiations,

iation of Southeast Asian Nations, August 2007) , (URL: http://www.mofa.go.jp/gaiko/fta/j_asean/pdfs/ajcep0708.html. Last downloaded on 1 November 2007).

¹² As for JTEPA, see MOFA [2003a: 7] (Japan-Thailand Economic Partnership Agreement Task Force Report, December 2003, (URL: <http://www.mofa.go.jp/region/asia-paci/thailand/joint0312.pdf>) Last downloaded 1st March 2004) , MOFA[2003b: 9] for JMEPA and MOFA [2003c Chapter 4, Section 2, a].

Preparatory Meetings (in May and July 2002), Working Group meetings (in September and November 2002, and in January, March, and May 2003), Task Force meetings (in July, August, and November 2003) were held. The focal points of the official negotiation, as summarized in the report by the JTEPA Task Force submitted in December 2003, are shown in the left column of Table 2.

1) Measures to enhance trade and investment

The JTEPA Task Force anticipated that “accomplishing high-level investment rules in JTEPA would be a challenge for both sides (MOFA [2003a: 22])” The discussion in the Task Force meeting appears to have focused on Most Favored Nation (MFN) treatment for foreign direct investment (FDI). The Japanese side emphasized the need to improve investment conditions, and especially to expand the application of MFN treatment, which Thailand granted exclusively to United States firms under the Thai-U.S. Treaty of Amity. After three years of negotiations, they reached an agreement on points such as the offer of national treatment for FDI investors, protection of investors and their properties, and a ban on performance requirements. On the issue of MFN, the Thai government agreed to consider granting it to Japan in the future.

The major point is that Thailand recognized Japan as one of its most important investment partners, along with the U.S., both in name and reality. As is well known, the economic relationship between Thailand and Japan developed rapidly following this 1985 Plaza Accord. Though the relationship was impeded by the Currency Crisis in 1997, the amount of trade and direct investment surged through the early 2000s. In 2006, exports from Thailand to Japan reached \$16.5 billion (making Japan its second large export partner), while Thailand’s imports from Japan reached \$25.5 billion (making Japan its largest import partner). The cumulative amount of Japanese direct investment to Thailand during the past twenty years reached approximately 1.76 trillion yen, occupying second place following China (3.60 trillion yen) (Oizumi [2007:

<http://www.jri.co.jp/asia/2007/07tailand.html>). In other words, the improvement of the investment environment under JTEPA was a fruit of the economic relationship developed during the past twenty years.

2) Liberalization and Cooperation in Sensitive Sectors

In the negotiations, the Japanese side pressed for deregulation of the manufacturing sector. The points to be discussed included the elimination of tariffs on mining and the deregulation of investments in industrial products. On the other hand, the Thai side focused on expanding exports of agro-fishery products to Japan, together with the liberalization of movements of persons.

During the negotiation process, the governments agreed to hold off decisions on some sensitive items, such as sugar and poultry, for further negotiations to be held within a few years.¹³ Nevertheless, those items were brought up into the negotiations by the Thai side in response to Japan's request to eliminate tariffs on automobiles and parts.¹⁴ After careful discussions, they reached a framework agreement in September 2005. The results of the negotiation are shown in the right column of Table 2. The governments agreed to eliminate tariffs on "substantially all" items. These include Thai agricultural and fishery product exports to Japan, and tariffs on industrial products by Thailand. Though some disputed items such as rice were checked off from the list for tariff elimination, the Japanese government agreed to future tariff cuts on other items such as sugar, starch and frozen poultry. Likewise, the main point of Thailand's offer was a tariff reduction on automobiles and automobile parts.

Thus the expected costs of the liberalization on sensitive industries, such as agriculture for Japan and automobiles and mining for Thailand, seemed to offset each other as a whole. However,

¹³ *Nihon Keizai Shimbun*, 10 July 2004.

¹⁴ NNA News website, 10 May 2005. (URL: <http://news.goo.ne.jp/news/nna/kokusai/20050510/20050512thb002Ahtml>. Last Downloaded on 10 May 2005).

the situation is a little more complex when we look at the negotiations sector by sector. The negotiation teams discussed cooperation in agriculture and human resource development for the steel industry from quite an early stage. The JTEPA Task Force reported:

“(t)he participants from the agricultural and fishery private sector of Japan...stressed that not only must an FTA be consistent with the WTO regulations but also various components, such as cooperation, should be included in the partnership” (METI [2003a: 8]¹⁵).

As a result, the Thai and Japanese sides agreed to recommend setting up a joint committee consisting of private agricultural representatives (METI [2003a: Annex 5]). This recommendation was incorporated into the JTEPA agreement.¹⁶ It is noteworthy that the representatives from the Japanese agricultural sector repeatedly emphasized the importance of cooperation as a complementary tool for trade liberalization. The idea of a “balance between trade liberalization and bilateral cooperation” [JA Zenchu 2004: 26] has its roots in the exchange program between the Central Union of Japan Agricultural Cooperatives (JA Zenchu) and agricultural associations in other Asian countries (JA Zenchu [2004: 30]).¹⁷ They emphasize the importance of cooperation to develop distribution systems and marketing skills, and technical cooperation for hygiene and quality control for agricultural products in those countries (MOFA 2003 Annex 5, JA-Zenchu 2004).

Meanwhile, cooperation measures in a sensitive sector can be used as a bargaining chip in

¹⁵ For the members of the Task Force Team, see METI [2003: Attachment 2].

¹⁶ Implement Agreement between the Government of the Kingdom of Thailand and the government of Japan Pursuant to the Article 12 of the Agreement between Kingdom of Thailand and Japan Economic Partnership, Article 45, Chapter 10 (URL: <http://www.mofa.go.jp/region/asia-paci/thailand/epa0704/implement.pdf>. Last downloaded in 10 November 2007).

¹⁷ JA-Zenchu, Kankoku, Thai, Filipin, Maresia, Indonesia tona Jiyu Boeki Kyotei (FTA) ni kan suru JA Gurupu no Kihon-teki Kangae-kata (View of JA Group about FTAs between Korea, Thailand, Philippines, Malaysia and Indonesia), February 2004. According to JA Zenchu, the exchange program itself was started in 1999.

negotiations. This appears more clearly when we see a case of cooperation in an industrial sector. JTEPA provides for cooperation for human resource development in the steel industry. It was proposed in May 2005 by Japanese Minister of Economy, Trade and Industry Sho'ichi Nakagawa at a meeting with leaders of the Thai government at the time. In exchange for the disputed tariff elimination on steel products by the Thai government, Japan appeared to offer cooperation measures to derive their concession. Likewise, the Japanese government offered the Malaysian government technical cooperation and human resource development for the automobile industry. Cooperation measures were introduced into FTA negotiations in this way. Though cooperation can be a tactical tool for trade negotiations in sensitive sectors, the author would like to emphasize that they are based on trade liberalization, unlike conventional ODA. As it were, EPA could be a chance for new style of cooperation, so to say, cooperation for development through further trade and investment.

Strategies for Multilateral Cooperation Framework

1) Case of Japan

The second feature of JTEPA and other EPAs is that they are designed to be part of a multilateral cooperation framework between Japan and ASEAN. The governments of Japan and Thailand pursued the bilateral FTA for multilateral cooperation based on their individual situations.

Since the conclusion of JSEPA, the Japanese government has actively embarked on a multilateral cooperation initiative with ASEAN. JACEP was proposed in January 2002, and was incorporated into the Five Plans for an "East Asian Community" by Prime Minister Junichiro Koizumi when the heads of governments agreed on JACEP at the Japan-ASEAN Summit in October 2003. Japan's initiatives for a "East Asian community," were motivated by its political and economic situation.

In the background of Japan's East Asian initiative is the growing influence of Chinese economic policy toward ASEAN. When the Chinese government proposed the China-ASEAN FTA in November 2001, the news astonished governments in the region. Following this proposal, China and Thailand announced their readiness to carry out early-harvest tariff reductions on 200 trade items, including agricultural products.¹⁸ China subsequently signed the Treaty of Amity and Cooperation in Southeast Asia.

Since the launch of the "Fukuda Doctrine" in 1978, Japan had believed that it was engaged in a "special partnership" with China as partners, to act together and advance together. However, in the face of China's new approach to ASEAN, the Japanese government could "no longer stay indifferent about China's movement in the region."¹⁹ The need to rethink its "partnership" with ASEAN was fueled by criticism from the ASEAN side on Japan's attitude toward its members. At JACEP Round Conference, held from January to April 2002, the Japanese representatives took a cautious stance on the liberalization of the agricultural market. The members from ASEAN reacted sharply to this, claiming that JACEP would have no meaning without a discussion of the reduction of tariffs on agricultural products (RC - JACEP [2002: 2]).²⁰

JACEP and the individual bilateral EPA s were the solution put forward by the Japanese government to resolve this situation. In the Trade White Paper 2003, the Japanese Ministry of Economy, Trade and Industry (METI) proposed an "East Asian-wide Optimal Supply-System." This idea forms the base for JACEP and the EPAs. This idea focused on an East Asian international division of labor in the field of manufacturing. The machinery industry, in particular, has promoted an international division of manufacturing processes among Japan and the ASEAN countries since

¹⁸ *Nihon Keizai Shimbun*, 12 June 2003. It was done as a part of ASEAN Free Trade Area.

¹⁹ Comment by official from Japanese MOFA, *Nihon Keizai Shimbun*, 2 November 2003.

²⁰ Round Conference for JACEP, The Interim Report of the Round Conference for JACEP, October 2002, (URL: http://www.kantei.go.jp/singi/asean/kettei/021016tyuukan_h.html. Last downloaded on 5 March 2004.

the 1990s. In order to optimize the system, METI proposed a system not only of lower tariffs on machine parts and completed products, but also that incorporated measures to harmonize customs procedures, investment conditions, and assistance for human resource development (METI 2003).²¹ By enhancing the existing supply system in the manufacturing industry, METI planned to incorporate Japan into a system of close-knit economic interdependence system with ASEAN countries in order to prevent Japan's isolation in the region.²²

On the other hand, MOFA proposed using cooperation measures in the EPAs as tools for involving late-comer members of ASEAN, such as CLMV. In "Japanese FTA Strategy," a document released in October 2002, MOFA emphasized the importance of measures to provide assistance to countries which were not yet ready for full-out trade liberalization. The argument was that regional trade liberalization would be smoothed if Japan provided assistance to developing countries involving cooperation for human resource development or technical assistance.

In summary, the main aim of Japan's FTA/EPA policy is to embed itself in a network of deep economic interdependence, and to avoid political isolation in the region.²³ By using JACEP and individual EPAs on a case-by-case basis and in a complementary way, it hopes to involve countries with large economic disparities together in a single network.

²¹ METI, "Higashi Ajia Kigyo Senryaku wo Kangaeru Kenkyu-kai" Chukan Torimatome-an (Study Group for Business Strategy in East Asia Interim Report Draft), September 2003, (URL: <http://www.meti.go.jp/kohosys/press/0004463/2/030905higashiajia-h.pdf> Last downloaded on 27 February 2004).

²² In the Trade White Paper 2003, METI touched upon the situation under which countries such as China, India, Austria and New Zealand were rushing to conclude RTAs with ASEAN, and stated that Japan would not be able to keep its markets in ASEAN and would be left out of the economic networks in the region. See, Tsusho Hakusho: Kaigai no Dainamizumu no Torikomi wo Tsujita Nihon keizai no Sai Kassei-ka (The Trade White Paper 2003: Revitalization of the Japanese Economy through the Introduction of Economic Dynamism Overseas), 2003.

²³ This does not mean, of course, that Japanese bureaucrats are indifferent to potential contradictions between EPAs and the WTO. From the inaugural stage, they were fully aware of and paid attention to WTO consonance with EPAs. On the inaugural stage of the Japanese FTA policy, see Ogita 2003 and Aoki-Okabe 2004.

2) The Case of Thailand

Thailand, for its part, also has reasons to for linking JTEPA to a multilateral framework. Or rather, JTEPA was important for Thailand precisely because it was based on a regional network. In October 2003, Thailand embarked on full-fledged tariff reductions on 200 trade items with China, as an early harvest measure under the China-ASEAN FTA. This was followed by a surge of agricultural imports from China.²⁴ In spite of this risk of being overwhelmed by Chinese products, Thailand agreed to the FTA with China because it expected to be able to attract FDI from third countries. By enhancing its access to the Chinese market, the government aimed to lure FDI from countries without an FTA with China to build export production bases in Thailand. As part of this, the Thai government established measures to grant favorable treatment to FDI in five specific sectors including automobiles (in particular, compact pick-up trucks), and agro-industry (ready-to-eat foods and tropical products). These are the country's main industries with international competitiveness, and in recent years they have faced severe competition from China. Those industries aimed to differentiate themselves from their Chinese competitors by specializing in niche products and by attracting FDI. Both the Thai government and corporations saw the FTA with Japan as a chance to enhance FDI inflows.²⁵ For this purpose, the Thai government pursued both the China-ASEAN FTA and JTEPA in a complementary way.

Likewise, the Thai government and corporations have taken an active stance toward using the cooperation measures included in JTEPA. Cooperation programs such as investment promotion for the "Kitchen of the World" project, the "Steel Industry Cooperation Programme" and the "Automotive Human Resources Development Institute" project are expected to provide chances for

²⁴ In the last quarter of 2003, imports from China soared by nearly 200% compared to the same period in the previous year. *Ajia Doko Nempo 2004* (Yearbook of Asian Affairs), Institute of Developing Economies-JETRO.

²⁵ For Thai corporations' business strategies over FTAs with China and Japan, see Aoki-Okabe [2005: 398].

Thailand “to achieve a prosperous and resilient economy under global competition.” Moreover, these cooperation measures were expected to expand, in the future, to Thailand’s neighbors. In discussions on cooperation at the JTEPA Task Force meeting, the members from Thailand emphasized their government’s readiness to expand its technical cooperation toward Cambodia, Laos and Myanmar and Vietnam, “for more balanced and sustainable growth of this region (MOFA 2003a: 28-19).” It is worth noting that the Thaksin administration was quite active in promoting cooperation with neighboring countries. Through frameworks such as the4 Ayrrawady-ChaoPhraya Mekong Cooperation Strategy, that administration aimed to make use of border areas as production bases for Thai industries.²⁶ By coordinating technical cooperation from Japan to CLMV, the Thai government expected to take the regional initiative both in a political and economic sense. Thus, for Thailand, JTEPA had to be connected to a framework for multilateral regional cooperation.

Concluding Remarks

So far, we have outlined the features of JTEPA and the background of its creation. In Section 1, we examined the features of JTEPA by examining EPAs as a whole. There, the author pointed out that cooperation measures are what distinguish EPAs from other FTAs. As an EPA, JTEPA shares that nature. And at the same time, JTEPA is unique precisely because it consists of a framework for multilateral cooperation. As a building block of JACEP, JTEPA was designed to cover the “unique” or “detailed” points between Japan and Thailand. Its “breadth of coverage,” especially on non-WTO issues, reflects the unique conditions of Japan and each ASEAN member.

In Section 2 we looked at how EPAs were designed, taking a case of the negotiations toward JTEPA. Though cooperation was introduced as a tactical tool for trade negotiations in sensitive

²⁶ For the Thaksin government’s regional cooperation initiatives, see Aoki-Okabe [2008] (forthcoming).

sectors, it is important to note that the cooperation initiative arose in the field of agriculture, triggered by trade liberalization.

In Section 3 the author attempted to elucidate the motivations of the two sides for pursuing an EPA. It was found that both Thailand and Japan used the EPA as a tool to enable them to involve parties with economic disparities in a single cooperation framework. By building cooperation measures into trade liberalization arrangements, they attempted to make it easier for economies not yet ready for full trade liberalization based on the non-discriminatory principle to join the regional economic integration process.

In closing, we would like to provide a glimpse of the “new era” of the Thai-Japan relationship. Firstly, economic interdependence via investments will deepen. However, this will be the result of the development of industrial production networks in the 1990s, rather than the advent of a “new era.” The author would like to emphasize the potential of cooperation measures to expand direct exchanges of people and to develop new types of cooperation among them. Though the details of cooperation are not yet clear, it can be a chance for those who will be affected by trade liberalization to express their views and resolve the problem on their own.

As JTEPA was enacted on 1 November 2007, its effects, especially from liberalization, will become increasingly concrete to people. In order to accomplish trade liberalization with assistance measures, or cooperation for development through trade and investment, it is important to keep our eyes on how cooperation is implemented.

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Science, technology										
Education and human resource development										
Trade and investment promotion										
Small and medium enterprises										
Broadcasting										
Tourism										
Mekong River development										
Transportation									¶	
Environment					#		+			
Energy					#		+			
Agriculture, forestry and fishery									††	
Road development										

= Provided by the agreement

= Provided by a related agreement

*1 Provided by CEPT and AICO (enacted in 1996)

*2 Provided by AIA (enacted in 1998)

*3 Provided by ASEAN Agreement on Tariffs

*4 ASEAN Intellectual property rights cooperation

*5 Based on cooperation by ASEAN Financial

Ministers

Included as a part of technology cooperation

+ Included as a part of cooperation

Source: AOKI-OKABE [2003: 370-371]. Revised by the Author in 2005, 2006 and 2007

Table 2 Comparison of the focal points of the JTEPA Pre-Negotiation Task Force and of the Framework Agreement

JTEPA Task Force Report (Dec. 2002)

Framework Agreement (Sept. 2005)

Category by WTO	Category by governments	Request from the Government of	
		Thailand	Japan
Trade Liberalization	Trade in Goods	Tariff elimination on 5500 items including agricultural products	Tariff elimination on items including automobile and automobile parts
	Trade in Services		Deregulation on Communication and Manufacture-related services
		Deregulation on movements of natural persons and medical services	
Non-WTO Issues	Mutual Recognition	Mutual recognition of industrial products standard	

Commitment or Offers by the Governments of	
Thailand	Japan
Tariff elimination on substantially all items within 10 years from enactment of the agreement	
<p>In addition to the GATS commitments, coverage includes the following sub-sectors:</p> <ul style="list-style-type: none"> - Advertising - Logistics consulting services - Computer and related services - Maintenance and repair services - Wholesale trade and retailing services (certain products only) - Management consulting services 	<ul style="list-style-type: none"> · Coverage of standstill commitments in 138 sub-sectors. · Comprehensive coverage, including the GATS commitments, in the following sectors: <ul style="list-style-type: none"> - Business and professional services - Communication services - Construction and related engineering services - Distribution services - Educational services - Environmental services - Financial services - Health related and social services - Tourism and travel related services - Recreational, cultural and sporting services - Transport services
<p>Coverage includes the following:</p> <ul style="list-style-type: none"> * Permit to stay and work permit for Japanese short-term business visitors * Reduction in monthly income requirement on issuance and renewal of permit to stay from 60,000 baht to 50,000 baht per month * Criteria for issuance and renewal of work permit for each foreigner * Restriction on the number of foreign employees permitted for one company as requirement for work permit issuance. * Immigration requirement to employ a certain number of Thai nationals for each foreigner permitted to stay * Procedures and requirements regarding work permit and visa application 	<p>Coverage includes the following sectors/matters:</p> <ul style="list-style-type: none"> * Easing of the requirement for granting entry and temporary stay for Thai cooks (Under certain conditions) * Granting entry and temporary stay for instructors of Thai classical/traditional dance, Thai music, Thai cuisine, Thai boxing and Thai language (Under certain conditions) * Clarification on the requirement of the graduation from university or college for certain categories of the Status of Residence under the Japanese Immigration Law * Certified careworkers * Spa services

	Investment	Expansion of Investments	· Establishment of rules for Investments with higher standard · application of MNF
	Cooperation	SMEs development	
			Improvement of Business Environment
		Reregulation on quarantine standard for agricultural and fishery products	Agriculture cooperation through relevant cooperatives of the countries

Source: Aoki-Okabe [2005: 385] based on the information from METI [2003d]

Less than 50 percent equity participation by Japanese investors for manufacturing of automobiles will be allowed with no requirement to apply for authorization, subject to certain conditions as specified.	Coverage will include all non-service sectors with some exceptions. The exceptions include the following industries: Aerospace, Arms and Explosives, Energy, Oil, Agriculture, Forestry, Fisheries and Mining
Specific Fields of Cooperation	
<ul style="list-style-type: none"> (a) Agriculture, Forestry and Fisheries (b) Education and Human Resource Development (c) Enhancement of the Business Environment (d) Financial Services (e) Information and Communication Technology (f) Science, Technology, Energy and Environment (g) Small and Medium Enterprises (h) Tourism (i) Trade and Investment Promotion 	
In the initial period the two sides will focus on the following cooperation programmes	
<ul style="list-style-type: none"> (i) to build on and look beyond Economic Partnership Agreement, and (ii) to jointly pursue and share the basic philosophy as well as practical skills and know-how to achieve a prosperous and resilient economy under global competition. 	
<ul style="list-style-type: none"> (a) Trade and Investment promotion for "Kitchen of the World" project (b) Japan-Thailand "Steel Industry Cooperation Programme" (c) "Automotive Human Resources Development Institute" project (d) Energy conservation (e) Value-creation economy (f) Public-private partnership 	

Source: [MOFA 2005] (URL <http://www.mofa.go.jp/region/asia-paci/thailand/joint0509/index.html> Last Downloaded on 1st April, 2006)

Table 3 Points of Liberalization on Trade in Goods (as of December 2005)

		Commitment by the Governments of	
		Thailand	Japan
Mining and Manufacture		Tariff elimination on substantially all items within 10 years from enacting of the agreement	
Mining		<p>Immediate elimination of tariffs on some steel products</p> <ul style="list-style-type: none"> - Tariffs on others will be eliminated, at latest, by the first day of the 11th year after the entry into force of JTEPA. - For some specific hot-rolled coils and plates, zero-tariff quota schemes will be established and their quantity will be jointly reviewed annually. 	
Mining and Manufacture	Automobiles	<p>Automobiles</p> <ul style="list-style-type: none"> - For passenger cars with engines exceeding 3,000 cc, the tariff rate will be reduced in equal annual installments from 80% annually until it reaches 60% in 2009 and will then be maintained at 60%. - For passenger cars with engines not exceeding 3,000 cc, both sides will renegotiate market access improvement and the renegotiation will commence on a date to be agreed upon before the signing of JTEPA. - A political declaration on automobiles will be issued at the time of the signing of JTEPA. 	
	Automobile Parts	<p>Auto parts</p> <ul style="list-style-type: none"> - Subject to AFTA coming into effect in 2010, a preferential tariff elimination scheme for auto-parts (Original Equipment Manufacturing - OEM) will be implemented whereby: <ul style="list-style-type: none"> * For items with tariff rates over 20%, the tariff rates will be reduced to 20% on the date of entry into force of JTEPA and maintained at 20% and eliminated in 2011; * For items with tariff rates 20% and below, the tariff rates will be maintained and eliminated in 2011; * For sensitive items (5 items), the tariff rates will be maintained and eliminated in 2013. 	
	Textiles		Tariffs on almost all items will be mutually eliminated immediately
	Petrochemical products		<ol style="list-style-type: none"> 1. Tariffs on most items will be eliminated immediately 2. Tariffs on the remaining items will be eliminated in 5 years
Agriculture, Fishery and Forestry	Exceptions or re-negotiation	mackerel, tobacco, raw silk, bird's eggs, dried egg yolks, and some designated fish items	<ul style="list-style-type: none"> ·Rice, wheat, barley, fresh, frozen and chilled beef and pork, raw cane and beet sugar, refined sugar, starches, canned pineapples, plywood, fishery products under import quota, tuna and skipjack, most items of prepared beef and pork and designated items of dairy products.
	Other Items	Immediate tariff elimination: *apples, pears and peaches	<ol style="list-style-type: none"> 1. Immediate tariff elimination: mangoes, mangosteens, durians, papayas, rambutan, okra, coconuts, processed fruits 2. Introduction of tariff rate quota (in-quota rate: duty free): fresh bananas, fresh small pineapples, prepared, preserved pork and ha, cane molasses. 3. Tariff elimination within 5-10 years: fresh, frozen vegetables, pet food

		4. Tariff reduction in 5 years: * prepared, preserved chicken meat, rice bran oil,
Fishery	<p>1. Tariff elimination in 5 years: fishes such as Thailand's raw materials in fishery industry</p> <p>2. Immediate tariff elimination: herrings, cod</p>	<p>1. Immediate tariff elimination: shrimp and prawn prepared, preserved and frozen or boiled shrimps and prawn:</p> <p>2. Tariff elimination in 5 years: fish fillet, jellyfish, fresh and frozen Mongo lka, prepared, preserved tuna, skipjack, other bonito and crab</p>
<p>Source: [MOFA 2005] (URLhttp://www.mofa.go.jp/region/asia-paci/thailand/joint0509/index.html Last Downloaded on 1st April, 2006)</p>		