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Japan-Thailand EPA: Problems and Future

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I Introduction

Japan and Thailand have reached a general accord for an economic partnership agreement (EPA) in September 2005. After nine rounds of serious negotiations from February 2004 to February 2006, it saw an end to a deadlock on steel, automobiles, and farm products. The legal text was firstly expected to be completed by April 2006 following the accord signed on which negotiators were allowed to work out technical details. In principle, the implementation is to follow in December 2006 once endorsement should be made by leaders of both sides.

At present, problems arise, at least from political changes, especially from the Thai side, which have caused the delay in the implementation of JTEPA. The completion of the legal text was not adopted in April 2006 as planned. The interim Thai government is on the view to consult the National Legislative Assembly (NLA) about all FTAs in order to seek a mandate on how to manage them. With the NLA's decision, it is expected to pave the way for the implementation of the JTFTA which is also awaiting the leaders' endorsement of two countries.

Beyond this political impasse, JTEPA aims to create new dimensions and perspectives on market and investment opportunities, including the most effective ways for future collaboration. The FTA itself sets to reduce barriers on more than 40 billion US dollars of trade. It is also expected to help increasing cross-country investment and technology transfer. Japan is Thailand's single biggest trading partner and investor and Thailand is leading exporter and supplier of a number of food, raw materials and finished products to Japan.

At this juncture, it is fair to ask again the background that led to the creation of JTEPA. Also one can not forget to look at the substance it has covered and the significance it might take place. As JTEPA represents one of many bilateral deals of both countries, one of the most important questions remains whether it would be longlasting and worthwhile or could take a whole new meaning for their future relationship.

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II Background

Japan and Thailand has long increased interest to each other. Both have developed constructive relationships over years. In what context then one could ask about the rationale of having an JTEPA.

Economic Ties

It is obvious that strong economic ties between the two play an important role to favor this partnership. Japan is still Thailand's most important trader and investor so far. Thailand, on the other hand, is Japan's important export market and ranks as Japan's significant importer. Trade balance favors Japan with Thailand suffered from a structural trade deficit (see Figure 1 and Figure 2). More frequent travel allows Japanese and Thai people to learn from each other in a globalized world.

The economic importance of Japan to Thailand is evident. For trade, it remains the second export market after the US and the most important source of imports for Thailand, especially machinery parts and components for different industries. For investment, there is, since the 1990s, a strong role of Japanese firms, helping Thailand's to be one of the major manufacturing bases in ASEAN. Japanese firms, like automobile and electrical and electronic industries, accord a great role of Thailand in their regional production networks in East Asia. For fact, Japan's role is key to Thailand's economic growth and development and has not diminished even with the financial crisis of 1997 and 1998.¹

The importance of Thailand to Japan can not either be denied. For trade, Thailand is Japan's seventh export market and ranks as Japan's eleventh importer in 2004. Thailand also provides a good alternative for Japan's needs in raw materials, intermediate products and industrial strategic alliances. Of course, one of the usual complaints for huge trade deficit with Japan is often related to difficulties in market access. In that context, economic cooperation has often helped to address the issues whenever it needs to be discussed. For investment, Thailand is still not in the position to make FDI in Japan except for small business ventures in services.

China's Rise

In viewing Japan and Thailand economic relationships, one needs to observe the rise of China and its growing role in Asia which have become intricately linked to Japan-Thailand partnerships. The

¹ For instance, Toyota having its largest plant located in Thailand, also produces gasoline engine blocks in Indonesia, power steering wheels in Malaysia, transmission and velocimeters parts in the Philippines, and diesel engine parts and auto-body stampings in Thailand. Kimura, F and M. Ando (2005), "International Production/Distribution Networks and FTAs, in Harvie C., F. Kimura and H-H Lee (2005), *New East Asian Regionalism*, Edward Elgar, pp.73-88.

Figure 1 : Size of Thailand's Trade with Japan, 1995-2005

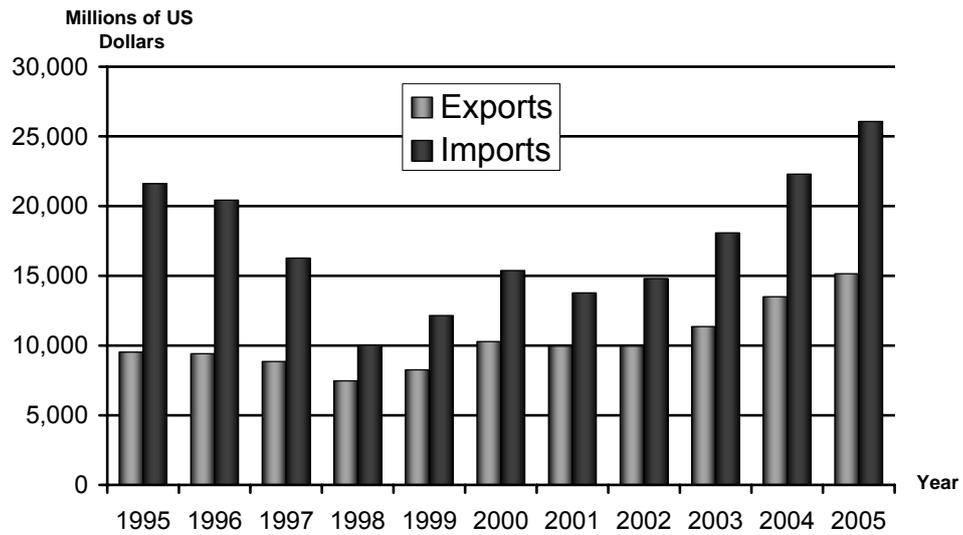
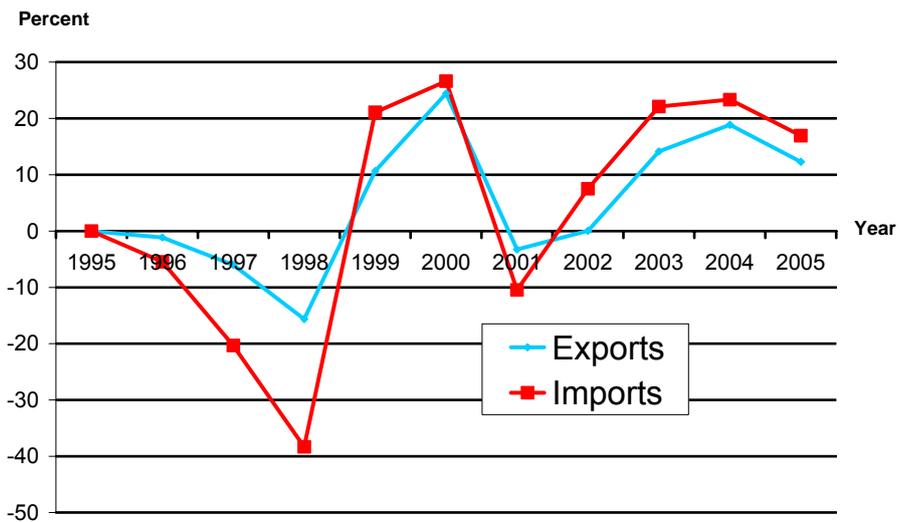


Figure 2 : Growth Rates of Thailand's Trade with Japan, 1995-2005



rise of China as a major trading partner has shaken the world and even more so the East Asian region.² A new kind of economic interdependence has been created in East Asia, centered around relations with China's own economic growth.³ Such trend has important implications for Japan-Thailand economic relations and countries and regions that have bilateral relationships without exception. China seems to strengthen its export competitiveness in a wider range of products thus causing changes in trade patterns with neighboring Asian countries.

Recent studies by Abe (2003), Eichengreen, Rhee and Tong (2004) Eichengreen and Tong (2006) confirm the tendency for China's exports to crowd out the exports of other Asian markets (see Table 1):

- Effect is felt mainly in market for consumer goods and hence by less-developed Asian countries like Thailand and most ASEAN members

- This same effect is less felt in market for capital goods or by the more advanced Asian economies like Japan and Asian NIEs for which machinery and equipment are a significant proportion of exports

As for China's demand for imports, there has been as well a strong tendency for a rapidly growing China to import more from its Asian neighbors:

- Effect is mainly felt in markets for capital goods like the more advanced Japan and Asian NIEs

- This same effect is differently felt for raw materials and intermediate products for which less developed countries like Thailand and member of ASEAN are suppliers

Therefore, the rise of China provokes differently changes in trade patterns and its economic interdependence among more or less developed Asian countries (see Figure 3). This result suggests that China's elasticity of demand for imports from its Asian neighbors has been dramatically shifting over time. If such a trend continues, it could be that direct positive impact of China's demand for imports will dominate, third-market, crowding out effects of other Asian exports in the third markets.

East Asian Multi-level FTAs

A nascent JTEPA has also been part of a retreat from multilateralism, as bilateral and regional free trade agreements (FTAs) in East Asia seek to fill the void left by the failure of the Doha negotiations. It is fair to say before the financial crisis of 1997-97 that there was no other setting of regionalism except ASEAN within East

² China now ranks third after the USA and Germany and has outpaced Japan to become the largest trading partner in Asia.

³ Since 2004, Japan now trades more with China than the USA

Table 1: Impact of China's Exports on Asian Countries

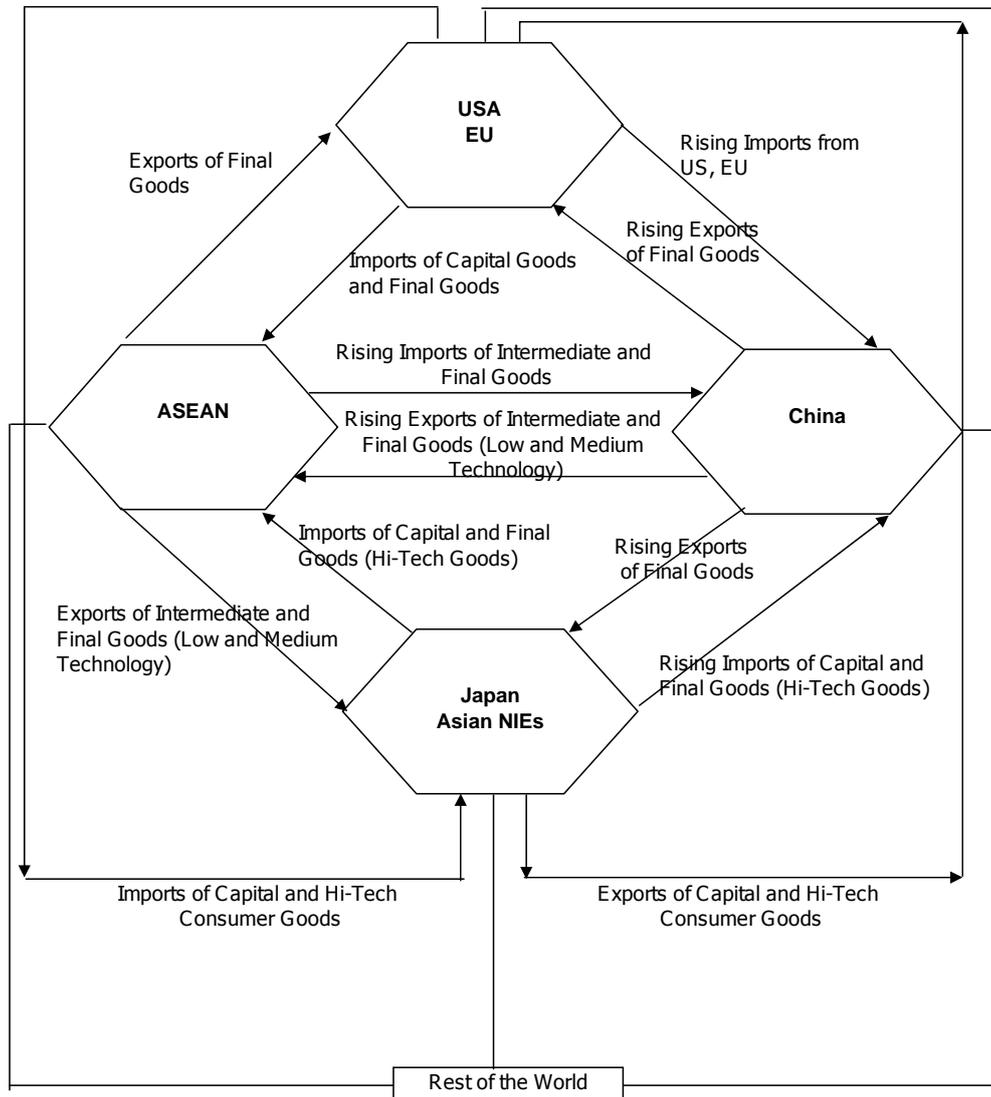
Factor	Consumer goods				Intermediates						Capital			
	Textile		Others		Raw materials		Energy		Others		Parts		Others	
	Coef	SE	Coef	SE	Coef	SE	Coef	SE	Coef	SE	Coef	SE	Coef	SE
China's Exports	-0.31	10.11	-0.13	0.06	0.36	0.05	0.24	0.12	0.79	0.08	0.26	0.07	0.02	0.08
Constant	5.36	1.03	13.06	1.20	5.64	1.20	18.62	3.36	-9.39	1.87	-3.50	1.45	0.97	1.73
No. observations	11084		12705		10388		4654		12351		9548		11228	
R-Squared	0.59		0.66		0.62		0.41		0.61		0.71		0.73	

Note: Equation for exports from country I to country j at year is:

$$\ln(\text{Exports}_{i,j,t}) = \alpha_0 \text{GravityVariables}_{i,j,t} + \gamma \ln(\text{Export}_{\text{China},j,t}) + \delta \text{Year}_t + \varepsilon_{i,j,t}$$

Source: Barry Eichengreen and Hui Tong, (2006)

Figure 3: Quadrangular Perspective on Trade, Structural Change and Efficiency Gains



Asia.⁴ By the turn of the century, however, bilateralism, defined as an FTA involving two economies/regions, emerged as a policy option to advance free trade in East Asia (Lloyd (2002), Sen (2004): 3)

The option was firstly initiated by Singapore, which started pursuing it as a major instrument of its trade strategy with its trading partners, following a post-crisis environment of slow recovery in several countries and an increasing competition faced by the region from rapidly growing China. This initiative caused the move toward bilateralism for Thailand and then other individual ASEAN members like Indonesia, Malaysia, the Philippines and Vietnam.

Within this environment, ASEAN-China FTA (ACFTA), being the first ASEAN FTA agreed with regional partner and initiated by China, was regarded as a move to push for further momentum to other major initiatives like ASEAN-Japan CEP, ASEAN-India FTA, ASEAN-EU FTA, for example. These competing schemes, dealing with preferential trading arrangements⁵ appear not to have a narrow agenda dealing with trade per se.

In the end, ASEAN might be irrelevant if these bilateral FTAs will translate into direct competition with its own AFTA framework.⁶ For this, the 2003 Declaration of ASEAN Concord II went further with a section on the ASEAN Economic Community (AEC) and reiterated the end goal of economic integration as outlined in the ASEAN vision. It then declared “the AEC shall establish ASEAN as a single market and production base”. To do this, it means ASEAN move toward deep integration measures beyond the emphasis in ASEAN to date which has mostly been on border measures. In addition, ASEAN has played a crucial role with Japan on shaping up, since the financial crisis, the ASEAN+3 which has also helped to inaugurate the East Asia Summit (EAS) in 2005.

III Significance and Substance

It is clear that both Japan and Thailand are faced with challenges to boost economic competitiveness and vitality in face of the fast changing economic environment in East Asia and the world. The rise of China represents for both as threat and opportunities so it is important to look for alternatives in policy options. For Japan, the economic decline since the 1990's prompts Japan with no choice but at

⁴ To a certain extent APEC and ASEM represent inter-regional economic liberalization and cooperation between East Asia and the Pacific and between East Asia and Europe

⁵ It does show that a new trend toward economic cooperation arrangement, name as FTA, CEP, EPA or whatever, be it bilateral, subregional or interregional, seems to move beyond a narrow agenda or trade liberalization per se.

⁶ AFTA is still far from perfect and needs to achieve its goals which are still to be met by several members.

embarking a third country opening to revitalize herself. For Thailand, it has to do with alternatives for market access following the financial crisis and also increasingly catching up with Chinese competitiveness in many aspects-trade and investment included. For this reason, a desire for deeper economic integration between the two should also provide what they need.

Interests' Development

Japan expressed its intention to form an EPA with ASEAN, when the former Prime Minister Koizumi visited Singapore in January 2002. The joint Declaration on the CEP, including elements of a possible FTA, was followed in November 2002. It was, at the ASEAN-Japan Summit in Bali in October 2003, both ASEAN and Japan signed a framework agreement for CEP.

The framework agreement for CEP addresses some important principles that are worth to mention. It includes a broad range of sectors focusing on liberalization, facilitation and cooperation with respect to the rules and disciplines of the WTO. It will respect the ASEAN integration with special and differential treatment to ASEAN members in recognition of their levels of economic development and additional flexibility to be included. For Japan, technical cooperation and capacity building programs will be considered for ASEAN.

Japan has insisted that the agreement should be a single undertaking. The negotiations began in 2005 with a timeframe as both sides wish to realize the agreement by 2012. The issue is that Japan has a bilateral FTA with Singapore since 2002, and has recently concluded the accords with Malaysia and the Philippines, with Thailand and Indonesia in the process of making a deal as well. This dual strategy with regard to FTA agreements with ASEAN as a group and selective countries suggest that ASEAN-Japan EPA will essentially be an umbrella agreement for separate FTAs.

Thailand has also started to seriously explore the path toward multi-level FTAs. Thailand's own financial crisis of 1997-98 is one of the major contributing factors in the beginning. It gave the government a strong warning to look for an alternative to guarantee foreign exchange earnings through trade. Thailand's bilateral FTAs have become more apparent on the agenda development under the Thaksin government (see Chirathivat and Mallikamas (2004)).

From a timid beginning, Thailand has developed to become a strong advocate of bilateral FTAs in East Asia. Whether the establishment of bilateral FTAs would help to enhance more market access and fair adjustment for domestic producers is still to be measured. Thailand has actively taken part of these FTAs with the hope that closer economic alliances could help to enhance country

competitiveness, attract FDI, create more opportunities for industry as well as restructure the domestic economy.

The main strategies in initiating these FTAs are to upgrade Thailand's business practices and to cooperate in various areas with major countries like the USA and Japan, to strengthen country's relationship with emerging markets like China and India, and to find a gateway to other regions such as Australia, New Zealand, Peru and Chili, Bahrain and the Middle East. To date, Thailand started to liberalize its trade under the bilateral FTAs with Australia, New Zealand and India and under the regional FTA with ASEAN and China. Thailand has also been negotiating with other trading partners like Japan, the USA, Peru, Chile, Bahrain, BIMSTEC, and EFTA. There are cases under study in both regional and bilateral levels.

JTEPA Substance

The final draft of the JTEPA was last revised in June 2006 when negotiators from the two sides met. After ten serious rounds of negotiations, it was hoped that the pact would be signed before the former Primer Minister Koizumi's term ended in September.⁷ The signing was originally scheduled for April 3, 2006, after the elections in Thailand. However, due to the political change in Thailand, a delay in the plan is also pushing to an indefinite date at the moment.

Before that, both Japanese and Thai leaders met in Tokyo to jointly announce that agreement in principle has been reached on all major elements on the basis of a series of negotiations taking place from February 2004 up to August 2005. In their joint press statement on September 1, 2005, they declared the aims of JTEPA is to:

“...further broaden and deepen the already close and cordial ties of friendship and mutually beneficial cooperation by forging closer economic relations, enhancing more favourable investment climate, and generating greater business opportunities through cooperation, liberalization and facilitation in trade and investment between the two countries. The JTEPA will make a new era for Japan-Thailand strategic partnership and provide a solid basis for an East Asian Community...”

For this reason, it is important to look at substance of its coverage as one expects to see a wide range of economic activities. Essentially, JTEPA comes under two areas:⁸

⁷ Indeed, JTEPA talks could trace luck to April 2002, when the former Prime Minister Thaksin and his Japanese counterpart Koizumi assigned delegation teams to begin working on a trade deal

⁸ The joint statement of both leaders has also listed 13 major elements that cover industrial goods, agricultural, forestry and fishery products, custom procedure, paperless trading, trade in services, investment, cooperation, government procurement, competition, intellectual property, mutual recognition, enhancement of the business environment, movement of natural persons

- It covers five major topics related to FTA. These are trade in goods, rules of origin, trade in services, investment and movement of natural persons.

- It also covers another seventeen major topics related to cooperation including enhancement of the business environment; intellectual property; cooperation in agriculture, forestry and fisheries; trade and investment promotion; information and communication technology; science, technology, energy and environment; small and medium enterprises; tourism; financial services; energy conservation; value-creation economy and public-private partnership. Cooperation will also include special projects to support Thailand's desire to a regional hub in automobile industry and Thailand's "Kitchen of the world".

For the purpose of the analysis, the study will mainly concentrate on the scope of FTA that would cover trade in goods, rules of origin, trade in services, investment, and movement of natural persons:⁹

- Trade in industrial products

For industrial products, Thailand will reduce tariffs on steel products imported from Japan over the next 8 to 10 years, in order to give time to their steel manufacturers to prepare for Japanese competition (see Table 2).

Thailand has also agreed to reduce import tariffs on cars with engines of 3,000 cubic centimeters or more to 60 percent from the current 80 percent by 2009. Thailand, while it does not have its own car companies, serves as a major parts production and assembly base for the world's big auto companies. As such, Thailand has agreed that tariffs on imports of automobile parts deemed sensitive by the Thai authorities will be eliminated by 2013 while tariffs on imports of other parts will be eliminated by 2011.

Japan will also reduce tariffs on textiles and apparels imported from Thailand with immediate elimination. They are also other products like articles of jewelry, wood products other than plywood, particle board and fiberboard and some petroleum and petrochemical products, which all tariff elimination will be immediate.

Japan has also listed a number of items like footwear and leather products to be eliminated within 7 to 10 years from the present tariffs of 2.7 to 30 percent, petroleum and petrochemical products to be eliminated within 5 years from the present tariffs of 2.5 to 21.3 percent.

⁹ As specified in details of the six attachments of the joint statement.

Table 2: Summary of Important Items Subject to Liberalization for Japan by Thailand

Temperate fruits, e.g.apples. Pears, peaches, prunes, berries, lemons, and papayas	
Current Thailand's tariff rate: 10-40%, Immediate tariff elimination	
Strawberries, watermelons, and other melons	
Current Thailand's tariff rate: 40%, Tariff elimination in 2 years	
Carrots	
Current Thailand's tariff rate: 40%, Tariff elimination in 2 years	
Iron and steel products	Current Thailand's tariff rate: 1-20%
Tariff Elimination/ Reduction under JTEPA:	
Hot rolled steel	
1. Immediate tariff elimination for items that are not produced in Thailand or the tariff rates are already very low.	
2. Tariff rate quotas (TRQ) for	
■ Hot rolled pickle & oil: 440,000 tons in year 1	
■ Hot rolled for cold rolled IF Steel: 230,000 tons in year 1	
■ Hot rolled for cold rolled for automotive use: 280,000 tons in year 1	
<i>* Thailand will determine the annual quota quantities for year 2 onwards until elimination of TRQ in year 11 taking into account the recommendation from the Japan-Thailand Steel Dialogue in which the representatives from public and private sectors of both sides are present.</i>	
In-quota rate: 0%	
Out-quota rates: will be maintained until elimination in year 11	
3. Tariff will be maintained until elimination in year 11 for other hot rolled steel	
Other steel and steel products	
■ Immediate tariff elimination	
■ Tariff maintained until elimination in year 7	
■ Tariff maintained until elimination in year 10	
Automobiles with engines exceeding 3000 cc	Current Thailand's tariff rate: 80%
Tariff Elimination/Reduction under JTEPA:	
Tariff will be reduced in equal annual installments until reaching 60% in year 4 and will then be maintained at 60% until renegotiation	
Auto parts for Original Equipment manufacturing (OEM)	
Current Thailand's tariff rate: 15-30%	
Tariff Elimination/Reduction under JTEPA:	
1. For items with tariff rates over 20%, the tariff rates will be reduced to 20% upon entry into force and maintained at 20% until elimination in year 6	
2. For items with tariff rates 20% and below, the tariff rates will be maintained until elimination in year 6	
3. For sensitive items, e.g.engines and engine parts, the tariff rates will be maintained until elimination in year 8	
<i>* Above tariff reduction/elimination is subject to the AFTA completion in 2010. If the AFTA completion is later than 31 March 2010, the tariff elimination/reduction will be postponed until 1 year after AFTA completion for item in 1. and 2. and 3 years for the items in 3 above.</i>	

Source: Ministry of Foreign Affairs, Thailand

- Trade in agricultural, forestry and fishery products

Thailand offered list of items included apples, pears and peaches with immediate elimination, fishes to be eliminated within 5 years except for herring and cod with immediate elimination. There are items considered as exclusion or renegotiation (mackerel, tobacco, raw silk, bird's egg, dried egg and yolks and some designated items for fish)

For Thailand's exports to Japan, tariffs on 1,400 out of 2,300 agricultural and marine products will be abolished. For example, tariffs will be abolished immediately on shrimp, which accounts for 14 percent of Thailand's marine product exports to Japan in 2004. Over five years, Japan will also cut tariffs on Thai boneless and cooked chicken imported into Japan and immediately abolish tariffs on tropical fruits, including mango, mangosteen, durian, papaya and coconut (see Table 3).

- Rules of origin

Thailand is concerned with Japan's strict regulations which pose problems for Thailand's market access especially for agricultural and fishery products. With its 4 digits, there are 229 categories of Thai products that fall into the strict rules of origin (ROO).¹⁰ The tuna case is one of the kinds that Japan requires Thai fishermen comprised at least 75 per cent of fishery crews in order for fishery products to qualify for reduced tariffs.

- Trade in services

The agreement puts great emphasis on its framework which covers transparency, schedule and methods of commitments, scope and coverage, standstill commitments, modification of commitments, safeguard measure, review mechanism.

Japan's liberalization plan includes the coverage of standstill commitments in 138 sub-sectors. As for specific commitments, Japan makes a comprehensive coverage of 65 sub-sectors including in the GATS commitments like hotel and restaurant, health, education, business and profession, distribution, maintenance and repairs, entertainment, etc.

Thailand also offers specific commitments in addition to GATS commitments, which cover the following important sub-sectors like advertising, logistics, maintenance and repairs, wholesale and retail, computer and related services, management consulting services, etc.

¹⁰ Equivalent to 42,000 million baht of exports out of the total of 93,000 million baht of Thai agricultural exports to Japan

Table 3: Thai Farm Sector to Benefits from Market Access to Japan

Group 1: Immediate tariff cuts			Group 3: Quota increases		
Products	Tariff	Current export value	Products	Tariff	Current export value
• Shrimp, fresh and processed	5%	13 bn bt	• Bananas	zero on 4,000-tonne quota in 1st year, rising to 8,000 tonnes in 5th year	n.a.
• Tropical fruit	10%-20%	370 m bt	• Modified starch	zero on 200,000-tonne quota	3.6 bn bt
• Canned and processed vegetable and fruit	15%	5 bn bt	• Molasses	15.3 yen/kg to 7.65 yen on 4,000-tonne quota in 3rd year, rising to 5,000 tonnes in 4th year	n.a.
Group 2: Gradual tariff cuts			• Fresh pineapple	zero on 100-tonne quota in 1st year, rising to 300 tonnes in 5th year	n.a.
Products	Tariff	Current export value	Group 4: Renegotiate in five years or less		
• Processed chicken	6% to 3% in 5 yrs.	10 bn bt	• Raw Sugar		
• Fresh and frozen chicken	11.9% to 8.5% in 5 yrs.	none*	• Canned pineapple		
• Processed seafood	9.6% to Zero in 5 yrs.	8 bn bt	• Raw tapioca flour		
• Fresh and frozen squid	3.5 % to zero in 5 yrs.	8 bn bt	Group 5: Excluded from FTA by Japan		
• Dog and cat food	3.5% to zero in 5 yrs.	7.6 bn bt	• Rice, products with high sugar and flour content, products distributed by the government		
• Frozen, chilled and canned fish, crab and shellfish	0 in 5 yrs	n.a.			
• Soy sauce, salad dressing	0 in 7 yrs	n.a.			

*Note: Imports still banned by Tokyo because of bird flu

Source: Ministry of Foreign Affairs, Thailand

- Investment

Similar to trade in services, the agreement offers a general framework on investment which covers issues like MFN, modalities, performance requirement, investment in services, dispute settlement, review mechanism, transparency and protecting rights, modification of commitments.

Liberalization in investment will be based on MFN with positive list approach of both sides. Japan's offer includes all non-service sectors with some exceptions. Thailand's offer is specified for equity participation for manufacturing of automobiles.

- Movement of natural persons

Specific commitments were made on the positive list approach. Japan's offer include easing stay for Thai cook (with 5 years' experience), granting entry and temporary stay for instructors of Thai classical dance, music, cuisine, boxing and language, clarifying graduation from university or college under the Japanese immigration law, certified caretaker, spa service.

Thailand's offer include among others permit to stay and work permit for short-term business, criteria for insurance and renewal of work permit, restriction on the number of foreign employees, procedures and requirements regarding work permit and visa application.

Implications

As JTEPA is to become an integral part of the future course of Japan-Thailand economic relations, one might ask where JTEPA would lead to, what would be the potential economic benefits and costs, and whether the pact is realistic in its goals in implementation and timeframe. Certainly, there are strategic interests for both sides to be considered as well.¹¹ At stake, this EPA represents bilateral trade and investment liberalization including elements of cooperation between Japan, a developed nation, and Thailand, a developing country. It aims to be a win-win partnership with better resource allocations as it tries to cover almost all aspects of economic relationships.

As seen from the commitments made from both sides, JTEPA will be starting with tariffs and non-tariff reduction. For tariffs, average tariff rates of Thailand are quite high at around 18 percent as compared to Japanese tariff rates which stand around 3 percent. But when to

¹¹ It is not surprising that Pisan Manawapat, Chief negotiator for Thailand believes that "the JTEPA is like a superhighway to prosperity for Thailand". *Bangkok Post*, July 6, 2006

come to measure non-tariff barriers, Thailand's non-tariff measures seem to be generally applied across different sectors while Japan's non-tariff measures are more sector-specific and very precise. In principle, abolishment of trade barriers in specific sectors will allow trade expansion, which could be realized through trade creation and trade expansion. As Japan and Thailand are well adjusted to the regional and global competition with its low costs and sufficient efficiency, it is expected that costs of trade diversion will be low as compared to benefits gained from trade creation.

There will be great adjustments, for both Japan and Thailand, at a different degree, which could vary much from sector to sector. As liberalization seems to be target-specific, the removal of trade barriers will lower costs, expand bilateral trade and increase economic efficiency much further along the way to free and open trade areas. For the least efficient producers, they could face with the exit if they could not adjust to greater efficiency and reducing production costs with comparable product and service quality. For other ASEAN members such as Indonesia, Malaysia, the Philippines and Singapore which have similar pacts with Japan, they might engage more trade and investment with Japan and Thailand through market widening, intensified competition and regional economies of scale.

A recent study commissioned by the Ministry of Foreign Affairs shows the results of expected benefits from trade liberalization at the macro level and across sectors involved (see Table 4). With tariff liberalization, there will be a GDP increase by 0.24 percent for Japan and by 2.43 percent for Thailand. This picture gives an impression of how JTEPA looks more significant for Thailand than Japan. But when measured in terms of equivalent valuation (EV), the economic welfare represents 2.2 billion US dollars for Thailand and 1.9 billion US dollar for Japan which stand for similar size of value. Also, household income improvement is also more significant for Thailand (3 percent) as compared to Japan (0.13 percent). For terms of trade, there is much improvement for Thailand as well as compared to Japan. And finally for trade balance, both Japan and Thailand have negative balance as both countries' consumption and production are also strongly dependent on other trading partners.

This same study also looks into tradable sectors to be gained from each other. For exports, trade gains represent 7.76 percent for Thailand more important than 1.23 percent for Japan. For industrial products, Thailand's gains are automobiles, parts and components, textiles and clothing, steel and steel products. As for Japan, these products' gain are leather products, textiles and clothing, automobiles, parts and components. For farm exports, Thailand's gains are rice, chicken and seafood, food products and sugar. For Japan, these products' gain are food products, processed rice. As for imports, trade gains also represent higher for Thailand with an increase of 9.93 percent and lower for Japan with an increased of 1.76 percent. For

Table 4: Macroeconomic Impact of Japan-Thailand FTA

	EV	GDP	Terms of Trade	Trade Balance	Household Income
	Millions US\$	%Δ	%Δ	Millions US\$	%Δ
Australia	-79.99	-0.11	-0.09	56.47	-0.12
China	-332.62	-0.11	-0.1	3.51	-0.11
Japan	1,884.98	0.14	0.07	-1,148.94	0.13
USA	-572.15	-0.07	-0.05	746.61	-0.07
EU	-540.01	-0.06	-0.01	704.99	-0.06
Latin America	-92.89	-0.06	-0.02	195.01	-0.06
Thailand	2,245.27	2.43	2.28	-1,284.45	3.00
ASEAN*	-479.48	-0.12	-0.12	123.83	-0.13
Others	-692.8	-0.07	-0.04	602.96	-0.07
World	1,340.31	1.97	1.92	-0.01	2.51

Note: *ASEAN-5 (excluded Thailand): Brunei, Indonesia, Malaysia, the Philippines, Singapore

Source: Estimates from the GTAP Model

industrial products, Thailand's major imports are automobiles, parts and components, textiles are clothing, leather products. On the other hand, Japan's major imports are textiles and clothing, automobiles, parts and components, leather products. For farm products, both countries' imports represent similar features as their exports to each other.

These findings show trade gains for both. Japan will look at Thailand as an alternative source of its industrial production networks and inputs for natural resource-based and intermediate products. Japan still needs of Thailand as partnership for the leading products it represents in the regional and global markets like automobiles, electrical and electronic industries. Thailand, on the other hand, could play a crucial role in supplying Japan's demand for consumer goods and inputs for Japanese industries. However, Thailand could still face increasing competition from other sources which could also provide the Japanese demand at lower costs.

IV Issues of Concern

Much has been said about the importance of JTEPA as an agreement and its possible implications. With the abolition and lowering of tariff and non-tariff barriers on various products and services, an expansion of trade and investment between Japan and Thailand is expected. Japanese and Thai consumers will likely benefit from lower prices, although Thai and Japanese producers are on the way to face greater adjustment with regard to more competition from abroad.

However, the immediate nearterm impact of JTEPA will not take place as the signing of the pact have been postponed because of political change in Thailand. This delay has also caused concern with regard to its implementation at a later date. There is also much discussion that the former Thaksin government hurried to negotiate FTAs, without the possibility of civil society 's participation. In this environment, economic policies of the one-year interim government looks likely to cause further delay of JTEPA implementation if not a possible review of some contentious issues.

As the delay becomes real, this would allow both sides to reconsider and prepare for other issues of concern. To start with, both Japan and Thailand negotiations used their best strategies to attain what they felt the best for their respective country. But the bottom line is still that a big part of JTEPA represents by far, at the moment, a limited FTA, judging from its modalities and roadmap for implementation. The liberalizing effects with a positive list approach are real sector- and, product-specific with different layers of product and service categories to be gradually benefited. The "give and take" exercise of negotiations was attained, however, this is, by far, away

from across-the-board liberalization. In reality, it is quite complex to imagine how trade liberalization without further areas of cooperation could help to increase better resource allocation and strengthen production efficiency of the two countries. To some people, this might be the way to go as both Japan and Thailand are considered as high protective trade regime.

In order to enhancing FTA benefits, there is also issue related to its implementation. Bilateral FTAs typically revolve around tariffs, quotas, SPS by which the details for market access have to be worked out. In other words, an even more crucial component, which attention is usually called for, is rules of origin. In the end, an agreement without clear, practical and fair rules is nothing but a paper with no value. On the surface, the Thai agricultural sector, for example, appears to be the winner under JTFTA. Japan has agreed to cut down barriers for a range of agricultural products, including chicken, fruit and vegetables and shrimp, all key Thai exports. However, rules of origin remain a subject of dispute that could undermine the benefits that Thai exporters appear to have gained in the initial stage.¹² As time goes by, there is question on how this implementation would take place and what about the renegotiation process would look like.

In addition to rules of origin, FTA benefits usually comes with its utilization from implementation. In this case, both Japanese and Thai traders could rapidly learn how to get the benefits. As usual, these benefits are often related to business margins, customs compliances, depths of coverage, etc. A recent study finds that Thai exporters and importers have benefited from FTA utilization with Australia and India, but reaped fewer benefits from ASEAN's FTA with China (see Table 5). Also, the study suggests that Thai importers utilize FTAs less than exporters.¹³ Both exporters and importers took fewer benefits from the ASEAN-China FTA because of the product coverage in terms of tariff reduction is low as well as the average tariff cuts. For JTFTA, expectedly to be strict to rules, but with greater transparency, Japanese and Thai firms could be interested to get the benefits from its utilization.

There is also the other side of FTA adjustments which should be taken into consideration. Although the benefits from liberalization appear to be greater than its costs, however, this opening up to free trade will have real impacts on sectors and people involved. To embrace for these changes, there should be impact management that is carefully designed to cater more the human face of adjustment requirements. Japan is normally famous for its preparation and

¹² As rules of origin are intended to ensure that benefits go only to products produced by two countries.

¹³ Those who had taken the most advantages of the Thai-Australian FTA were in food, plastic and jewellery industries. Textiles and apparel, steel and chemicals, had received less benefit from Australian's liberalization because Australia also offers duty cuts to other countries.

Table 5: Summary of Utilization Rate by Firms under Different FTAs in 2005

Results	Exports			Imports		
	TAFTA*	ACFTA**	Thai-India	TAFTA	ACFTA	Thai-India
Average FTA tariff cuts (%)	4.47	1.02	2.56	0.74	0.72	6.61
Products utilising lower rates (%)	88.15	37.28	80.6	32.03	23.43	44.97
Amount saved via lower tariffs						
* Value (US\$ mn)	111.41	62.81	7.4	5.83	28.19	0.55
* Proportion of Thailand overall trade value (%)	4.73	3.85	2.24	0.62	5.5	5.68

Note: *Thai-Australian Free Trade Agreement

**ASEAN-China Free Trade Agreement

Source: Thailand Development Research Institute

bewareness of treating people. Thailand is still young of experience to face with this change via structural shift. In the end, the question remains on how the government will measure the readiness, or lack thereof, of impact management, to harvest the benefits and to cushion the costs and what plans will be for each sector for free trade modus operandi in the next five years, for example.

Both sides may have missed their opportunity to see a real impact on their talks because of excessive concentration on bilateral FTAs, and being way from broader regional and multilateral framework. For this, Japan and Thailand should not miss the point on how JTEPA could enhance the scope of economic activities as part of regionalization effect rather than create unnecessary diversion effects as a result of the dark side of bilateralism. For example, Thailand expects from Japan to play an increasing role of an investment base shift from Japan and a technology transfer. On the other hand, the gritty-knitty liberating efforts are important, but should not miss a broader picture of efficiency gains and better resource pooling apart from the market sharing issue.

V Challenges

Adequate monitoring tools for bilateral EPA processes would allow better policy design and implementation, better security and participation by all stakeholders and affected groups and individuals, as well as more-in-dept analysis of the transformation processes. The preceding analysis raise some considerations of these issues and tries to answer to the questions posed. The attempts in this part aim to discuss some of revelant challenges which might require to be explored by the framework agreement.

It is clear that JTEPA looks as part of policy options for Japan and Thailand to gain further from economic ties to each other. Bilateral relationship of Japan and Thailand is growing fast both for trade and investment. This partnership is a window of opportunity for two sides to turn remain problems around and to better explore common interests. As Japan represents a developed nation and Thailand, a developing country, there is room for complementary trade flows, investment linkages and people exchanges. For Thailand, it seems to be positive with the pact as Japan has included a number of sensitive items and sectors like services in the liberalization schemes.¹⁴ For Japan, it has also reach what it needs to benefit Japan's business interests as Thailand made efforts to liberalize at least barriers related to usual

¹⁴ Thus including efforts to improve Thailand's product standards, especially the food-safety, being higher than international standard, as part of functional cooperation between the two countries.

complaints of Japanese firms in Thailand.¹⁵ Japanese firms still expect JTEPA to help cost reduction (66 percent), export expansion (27 percent)¹⁶, among other benefits they might get.

However, it remains to be seen how Japan would use JTEPA to deepen Thailand as production base for strategic industries and Thailand to upgrade standards and quality requirements while both sides might forge necessary sectoral reform including the initiatives for cross-border commercial practice improvement. As said earlier, JTEPA is not alone in this enterprise. Both Japan and Thailand have made commitments to several bilateral FTAs. For instance, Japan has also bilateral FTAs with major ASEAN members like Indonesia, Malaysia, the Philippines and Singapore. It looks like JTEPA has a role to play within the framework of Japan-ASEAN EPA. So, the project of an intensification of bilateral FTAs is real to be the centerpiece of trade policy strategy at the moment.

For this reason, JTEPA has often been viewed to support the argument of Japan's needs to fostering its economic presence in Southeast Asia despite the declining role of the Japanese economy coupled with the rise of China (Abe (2003), Chirathivat (2005)). In fact, the way on which China has emerged, poses direct threats and opportunities to both Japan and Thailand, though in different ways. For Thailand, country's competitiveness in the third market has been continuing to erode and China's attractiveness as an important FDI destination also draws investor around the world. However, Chinese increasing needs of raw materials, intermediate inputs and some finished products have helped to appease Thailand from the Chinese threat. The Chinese approach to Thailand and ASEAN under ACFTA has strongly incorporated this sentiment toward China (see Table 6 and Table 7). For Japan, rapid growth of China has helped Japan to export capital and consumer goods to satisfy this demand. However, along with this rapid growth comes a real transformation of Chinese industries through FDI. The sheer size of China and its potentials for new development have caused concern of new emerging production networks centered around China so it could supersede the role of regional production networks which exist and are an integral part of Japan's and Asian NIEs' economic presence from the 1980s and 1990's.

It is also interesting to look how JTEPA may link to the new networks linking Thailand and China and these could be within and outside. With the ACFTA, Chinese competition is forging Thai and

¹⁵ A JETRO survey finds Japanese firms are sensitive to the influence of JTEPA with most of them expected benefits from FTAs combined as follows: JTEPA (59%), AFTA (38%), ASEAN-Japan FTA and ASEAN-China FTA (21%), ASEAN-India (17%).

¹⁶ ASEAN-China FTA could result in competition with imported commodities from China (57 percent), export expansion to China (31 percent). Meanwhile, Thailand-India FTA could help for export expansion to India by 73 percent and import cost reduction (by 29 percent).

Table 6: Summary of Thailand-China Trade Liberalization under ACFTA

Country and Coverage	<p>ASEAN and China FTA/ (Jan. 2004 for EHP and Jul 2005 for Normal Track)</p> <p>The coverage of EHP is HS 01 to 08 products. However, Thailand and China agreed upon the accelerated tariff elimination program and eliminated tariff for the HS 07 and 08 products in Oct. 2003.</p> <p>Trade in services and investment are under negotiation.</p>
Negotiation Approach	Comprehensive for trade in goods, and services and investment
Trade in Goods	<p>EHP: Thailand and China to eliminate tariff for HS 07 and 08 in October 2003</p> <p>EHP: ASEAN and China to eliminate tariff for HS 01 to 08 by Jan. 2006</p> <p>Two tracks are applied for the tariff elimination: (1) normal I for 6,000 items with tariff elimination within 2010 and (2) sensitive track 400 items with 0-5% tariff rate within 2018 and highly sensitive track with 100 items with no more than 50% tariff rate within 2015.</p>
Services and Investment	Still under negotiation as China wants positive lists while ASEAN wants the negative list for the investment.
Rules of Origin	<p>Wholly obtained for agricultural products and 40% ASEAN and China content.</p> <p>Product Specific Rule is applied.</p>
Cooperation	Agriculture, ICT, human resources, GMS, investment, product standard, and Intellectual Property Rights.

Note: that Thai sensitive list consists of agricultural products like milk, potato, garlic, onion, tea, coffee, silk, marble, automobiles and parts while the Chinese sensitive list consists of corn, rice, vegetable oil, sugar, natural rubber, wood products, paper and pulp, automobiles and parts.

Table 7: Summary of Thailand-India FTA

Country and Coverage	India (EHS: 1 Sep. 2004)/ Early Harvest Scheme for goods implemented as of Sept. 2004 while the normal track will take more time. Service and investment as well as economic cooperation will be included later.
Negotiation Approach	Completion of the trade in goods while negotiation for services, investment and economic cooperation shall be completed in 2006.
Trade in Goods	Two parts of trade in goods: (1) EHS with 82 items (fruits, canned seafood, gems, machinery parts, and some electrical appliances) with the Margin of Preference 50, 75 and 100% starting from Mar. 2004 to Sept. 2006 and (2) normal track as well as sensitive track (agriculture, textiles, and automobiles and parts) are under negotiation but the tariff elimination will be within 2010.
Services and Investment	Have to wait till the trade in goods is settled.
Rules of Origin	EHS: (1) Wholly obtained, (2) combination of substantial transformation and local value added content such as Change at 4-digit H.S level (Change to subheading from any other headings), provided that there is a local value added content not less than 40%, and (3) local value added content not less than 20-40% depending on the products. Product Specific Rule is under negotiation.
Cooperation	Joint cooperation in designing the safeguard measure Piori consultation for the anti-dumping measure Dispute settlement process

Southeast Asian firms to specialize and become even more efficient.¹⁷ There will be winners and losers, thus this requires one to be especially vigilant in such an industrial adjustment. In a way, Southeast Asia may eclipse with the rise of Chinese production networks and a re-orientation of the regional economy around. In such a context, JTEPA could also play a significant role as JAEPA has planned to revitalize Southeast Asia as Japan's production base which could also help to make sense of an ASEAN Economic Community and the future role of Japan in the region.

¹⁷ For instance, China's role beyond trade relations is still limited. China is yet to emerge as major investor in Southeast Asia.

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