

CHAPTER 3

JTEPA INITIATIVES: WHY JTEPA NOW?

As the Thai economy got the serious effect from the economic crisis in 1997, Thailand set up the policies to recover its economy such as restructuring the financial sector, developing human resources and economic structures, etc. Due to the constraint of budgets and expertise, Thailand found that it was necessary to request assistance from the international community, including Japan. Even though Japan also faced crucial problem from the economic crisis, it played a significant role to pull Thailand out from the crisis. Although Thailand appreciated the Japanese assistance, it realized that the dependency problem became serious from this assistance. Therefore, Thailand developed a policy to stimulate economic growth and deepen Thai and Japanese economic relations. As the liberalization became popular since the 1990s, the Thai government realized that a free trade agreement would respond this objective so it developed the Japan and Thailand Economic Partnership Agreement.

This chapter shows the perspective of Thailand and Japan in development JTEPA. There are internal and external factors that influence both countries to negotiate this agreement. Thailand and Japan realize that this agreement creates mutual benefit and decreases economic conflict between the two countries.

A. Thai Foreign Policy: Post Economic Crisis 1997

Economic crisis and recovery period

The financial crisis in 1997 brought unprecedented economic upheaval to Thailand. This crisis started with problems in the financial sector, and put pressure on the Thai baht in the foreign exchange market, and then it spread to the Thai economy as a whole and affected people in various ways. This crisis affected the domestic international

sector. The Thai government recognized the severity of this economic crisis, so it established urgent plans of action to solve the problems. The policies were classified into two phases which were the immediate term and the medium term. The policies aimed to bring about continuous improvement and the restoration of the Thai economy such as solving the problems of the financial sector and boosting liquidity, promoting foreign direct investment, infrastructure adjustment, human and social development, restructuring agricultural, industrial and the service sector.¹

The Thai government's policy framework in 1997 – 2000 was designed to restore confidence of foreign investors and economic stability. As Thailand could not solve this problem by itself, it requested the assistance from the international community to recover its economy. There were many international organizations and countries that provided assistance to Thailand such as the International Monetary Fund (IMF), the Asian Development Bank (ADB), the World Bank, Japan, the United States, etc. The IMF was one of the main organizations that help Thailand from the crisis. It provided both aid and measure to pull Thailand's economy from the hard time. Due to the fact that the Thai economy highly depended on foreign capital and deeply depreciated baht, this crisis massively increased the external debt. The IMF provided a lending package of US\$ 17.2 billion² and proposed a further comprehensive financial and corporate debt restructuring, monetary and fiscal policies to help recover the Thai economy from the crisis.

Although Japan also faced the economic problems from the crisis in 1997, it ranked number one on the Development Assistance Committee (DAC), as a country that provided ODA to Thailand after the economic crisis. (Table 3.1) Japanese ODA played a vital role to recover the Thai economy by providing assistance through many agencies; such as the Japan Bank for International Corporation (JBIC), the Overseas Economic

¹ Policy statement of The council of Ministers of Prime Ministers Chuan Leekpai Delivered to Parliament on November 20, 1997.

² Chalongphob Sussangkarn, "Economic Crisis and Recovery in Thailand: The Role of the IMF," a paper presented at the Conference on Asia in Economic Recovery: Policy Options for Growth and Stability, organised by the Institute of Policy Studies, Orchard Hotel Singapore, June 21 – 22, 1999.

Cooperation Funds (OECF), Japanese International Cooperation Agency (JICA) etc. Under the New Miyazawa Initiative, the Japanese government approved many loan packages to overcome the Thai currency crisis. The following showed some packages that the Japanese government approved to help recover the Thai economic crisis:

1. The 30 billion yen for Economic Recovery and Social Sector Program Loan.
2. The 117.5 billion yen under the 23rd ODA loan package to improve the country's international balance of payments, to restore the credibility in the markets and to carry out smooth economic structural reform.³
3. The 115.79 billion yen under the 24th ODA loan package for social and economic development,⁴ etc.

Moreover, Japan had provided 4,000 million US\$ under the International Monetary Fund assistance package to recover the Thai economy and also provided technical assistance by dispatching experts, giving scholarships to Thailand which amounted to 800 million US\$.⁵ This package focused on helping the private investment activities, reforming the economic structure and developing human resources. Although Japan had provided assistance to recover the Thai economy, the objective of assistance between Thailand and Japan were different. Japan wanted Thailand to immediately recover and restructure its economy while Thailand asked the Japanese government to expand the loan period since Thailand could not pay the loan back at this time. Moreover, Thailand needed Japanese financial support to solve the economic crisis.⁶ Japanese assistance during the economic crisis period made the dependence problem between the two countries more seriously.

³ Japan Bank of International Cooperation, "First ODA loan to Thailand under the New Miyazawa Initiative," <http://www.jbic.go.jp/english/base/release/oecf/1999/0312-e.php>.

⁴ Ministry of Foreign Affairs, Japan, "The 24th ODA Loan Package to Thailand – for Thailand's Recovery to the Course of Autonomous and Sustainable Development," <http://www.mofa.go.jp/announce/announce/1999/9/928-2.html>.

⁵ Ministry of Foreign Affairs, Japan, "Asia Economic Crisis and Japan's Contribution," www.mofa.go.jp/region/asia-paci-econo_crisis/index.htm.

⁶ Siriporn Wajjawalku, "Thai Foreign Policy Towards Japan after the Cold War" (Academic Seminar at Thammasat University, Bangkok, June 30, 2000).

Table 3.1
Japanese ODA to Thailand after the economic crisis

(Value in million of US Dollar)

Year	1	2	3	4	5	Share of Japan	Total
1998	Japan	Germany	Australia	Denmark	USA	82.7%	657.4
1999	Japan	Germany	Denmark	Australia	Finland	88.1%	999.4
2000	Japan	Germany	Australia	USA	Sweden	93%	682.9
2001	Japan	USA	Australia	Denmark	Germany	77.4%	270.9
2002	Japan	USA	Denmark	Australia	Sweden	79.3%	280.4

Source : Embassy of Japan in Thailand

Economic growth : bilateral liberalization

Thailand realized that it heavily depended on international assistance for its economic recovery, especially Japan. Therefore, the Thai government adjusted its economic structure and policy to stimulate economic growth in both, the domestic and the international sector. Under Chuan's administration (1997 – 2001), the Thai government promoted economic relations and cooperation with important trading partners under a free trading system with fair competition. Moreover, Thailand actively participated in efforts to reduce international conflict resulting from disputes related to trade, investment, technology transfer and protection of intellectual property rights, by taking into primary account the country's preparedness.⁷ Thailand implemented various measures to achieve these objectives. During the Chuan era, Thailand initiated a study on bilateral FTA with Australia, Chile, the Czech Republic, Croatia and South Korea.

⁷Policy statement of the council of Ministers of Prime Minister Chuan Leekpai, Delivered to Parliament on November 20, 1997.

Although Thailand discussed the bilateral FTAs with those countries, little progress was made.⁸

Under Thaksin's administration (2001 – 2005), the Thai government implemented a proactive and outward looking policy to boost up its economy and restore economic relations with trade partners by developing cooperation in all fields with a view to foster good understanding in resolving problems and sharing mutual benefits.⁹ Therefore, Thailand undertook to sign numerous bilateral FTAs in order to establish broader relations of cooperation with key partners. During the Thaksin era, Thailand was quite interested to negotiate FTA with the large populated countries and big trade partners such as China, India, Japan and the United States.¹⁰ Table 3.2 showed the FTA that Thailand already concluded.

Table 3.2
Thailand's FTA Negotiation

FTA	Negotiation Started	Negotiation Completed	Signed	Date of Entry Into Force
Thailand - Australia	August 2002	March 2004	5 July 2004	1 January 2005
Thailand – New Zealand	May 2004	November 2004	19 April 2005	1 January 2005
ASEAN – China (Economic Cooperation) Tariff elimination on certain products	November 2001	October 2002	4 November 2002	1 January 2004
Thailand – China Early Harvest on Fruits and Vegetables	January 2003	June 2003	18 June 2003	1 October 2003
ASEAN – China (trade in goods)	January 2003	October 2004	29 November 2004	20 July 2005
Thailand – India (82 products for Early Harvest)	December 2002	October 2003	9 October 2003	1 September 2004
Thailand - Japan	February 2004	February 2006	3 April 2007	1 November 2007

Source: Department of Trade Negotiation, Ministry of Commerce

⁸ Jiro Okamoto, "Thailand's FTA policy : Continuity and Change between the Chuan and Thaksin Governments," *Whither Free Trade Agreements? Proliferation, Evaluation and Multilateralization* (Japan: Institute of Developing Economies, 2003), pp.258-260.

⁹ Policy statement of the council of Ministers of Prime Minister Thaksin Shinawatra, Delivered to Parliament on February 26, 2001.

¹⁰ Okamoto, pp.261-267.

The development FTA between Thailand and Japan FTA was initiated by the Thai side, this FTA was encouraged from both internal and external factors. For the internal factor, the Thai government wanted to broaden and restore economic relations with Japan since the trade between two countries dropped after the economic crisis. Trade volume between the two countries in 1996 was 30,992 but in 1997 and 1998 it dropped to 29,217 and 22,903 billion yen, respectively. Moreover, Thailand wanted to create mutual interest, decrease economic problems and promote cooperation with Japan, a major trade partner.

For the external factor, the popularity of liberalization in the global economy stimulated Thailand to negotiate FTAs with its trade partners. As many countries negotiated bilateral FTAs with their trade partners, Thailand might of become isolated from the world if it did not establish FTAs with its trade partners. Moreover, Japan concluded bilateral FTAs with many countries, including ASEAN countries, and Thailand might of lost potential interests if it did not negotiate the bilateral FTA with Japan.

Due to the internal and external factors, Thailand realized that the development FTA with Japan would be one policy to boost up the Thai economy from the crisis. The Thai government expected that the elimination of trade barriers under FTA would create economic activities and decrease economic problems between the two countries. It seemed that FTAs were the effective tools to promote economic growth between trade partners.

JTEPA as a tool to improve Thailand and Japan economic relations

In 2002, Thai and Japanese Prime Ministers decided to begin consultations for an agreement of Japan – Thailand Economic Partnership (JTEP) in the Working Group. After 5 meetings of the Working Group, the JTEPA Task Force was set up to study the process for realizing the JTEPA. In the Third meeting of Task Force, November 2003, the proposal of the cooperation of 21 sectors was proposed to the Prime Ministers of the

two countries to start the official negotiation of JTEPA. The two countries set up the first official negotiation of JTEPA in February 2004. In the Ninth meeting, July 2005, the two countries concluded the major elements of an agreement and then the officials of both sides expedited work on remaining technical matters. Although JTEPA was ready to sign in February 2006, it was postponed due to the political problems in Thailand. The two Prime Ministers signed this agreement in Japan on April 3, 2007.¹¹ (The Joint Statement was attached in the annex)

As Japan – Thailand Economic Partnership Agreement (JTEPA) was the comprehensive agreement that covered trade, investment and cooperation, Thailand expected that JTEPA was one policy that was meant to strengthen and deepen economic relations between Thailand and Japan. Moreover, Thailand also expected that JTEPA might be a tool to improve unfair practices between the two countries as this pact decreases the unfair regulations on trade between two countries.

For trade, both trade in good and trade in service, Thailand expected that the elimination of trade barrier would provide opportunity for Thai exports to access into Japanese market. Consequently, the severity of trade deficit problem between the two countries would decrease. On the investment sector, Thailand expected that JTEPA would decrease technology transfer problem since there was the condition that forced Japanese staff to transfer technology to Thai one. For the cooperation, as Thailand intended to change the donor – recipient to be partnership, it highly expected that the cooperation under JTEPA would be the important instrument to improve unfair economic relations between Thailand and Japan since those projects supported Thailand to develop its economic capacity.

¹¹Minister of Foreign Affairs, *Japan – Thailand Economic Partnership* (November 10, 2006), pp.50-53.

B. Japanese Economic Policy since 1990

Japanese economic stagnation

Japan faced the economic recession since the early 1990s, the cause of the economic stagnation came from the yen appreciation after Japan signed the Plaza Accord in 1985.¹² By the end of 1990, the Japanese stock market dropped 38%, wiping out 300 trillion yen in value and land prices dropped steeply from the speculative peak. This recession was known as the bursting of the bubble economy. Although the Japanese economy recovered in 1995 and 1996, the post-bubble recession continued through the second half of the 1990s since Japan faced the Asian economic crisis. The rise of consumption tax rate in 1997 and bankruptcies of major financial institutions in economic crisis quickly worsened the Japanese economic recession. The Asian economic crisis caused Japan to face the negative economic growth in 1998, due to the falling export, the lower benefits of Japanese industries, consumer's spending decreased, etc.

Although the Japanese government provided 60 trillion yen for economic recovery, Japan could not recover its economy due to the domestic and international problems.¹³ Therefore, Japan developed a new trade policy to stimulate its economic growth and solve economic problems with the trade partners. Japan realized that negotiating FTA may be one policy that can be used to achieve these purposes. For Thailand, an important trade partner in this region, the trade volume between the two countries decreased after the economic crisis in 1997. (See Table 3.2)

¹² The Japan Times, "Behind the failure of the Japanese economy," <http://search.japantimes.co.jp/cgi-bin/eo20080528hs.html>.

¹³ Japan Fact Sheet, Web-Japan, "Japan's economy in an ear of globalization," <http://web-japan.org/factsheet/pdf/ECONOMY.pdf>.

Table 3.3
Thailand and Japan Trade Relations

(hundred million yen)

Year	Japan Imports from Thailand	Japan Exports to Thailand
1996	11,112	19,880
1997	11,573	17,644
1998	10,682	12,221
1999	10,082	12,848
2000	11,423	14,694
2001	12,605	14,425
2002	13,146	16,486

Source: Trade Statistics, Ministry of Finance of Japan

The delay of multilateral negotiation (WTO)

Due to the changing of the global economy in the 1990s, trade liberalization became a significant issue in international community. Japan realized that liberalization was useful to the Japanese economy both domestically and internationally. Domestically, market liberalization was expected to be an instrument to promote structural reform in the long-depressed economy. Externally, the formation of close partnerships through free trade agreements (FTAs) became one of the most conspicuous phenomena in the international scene. Japan was forced to react to such trends in a proactive manner.¹⁴ Japan was more concentrated on multilateral than bilateral liberalization due to the fact that it expected that the WTO created mutual benefits between Japan and its trade partners at one time.

However, the multilateral liberalization did not create benefits as Japan expected. The slow pace of WTO negotiations, especially the dispute of developed and

¹⁴Hidetaka Yoshimastu, "The Politics of Japan's Free Trade Agreement," *Journal of Contemporary Asia* 36, no.4 (2006): 479.

developing countries on agricultural products, influenced Japan to think of alternatives to encourage faster liberalization. Therefore, in the late 1990s, the Japanese government began to shift its trade policy from multilateralism to bilateralism or regionalism in the late 1990s.¹⁵ Moreover, the United States which was the main supporter the WTO also concentrated in bilateral FTA, this also encouraged Japan to be more interested in developing bilateral FTA. Thus, entering into the bilateral FTA was a highly useful way of broadening the scope of Japan's economic relationships with other countries.¹⁶

The emerging economic power of China in this region made the Japanese government worry about the disadvantaged competition. As China - ASEAN FTA was concluded in 2002, this agreement eliminated tariff of agricultural goods between China and ASEAN in 2004. For Thailand, the Early Harvest Program was started in October 2003, in the agricultural and fresh fruit sectors. China benefited in exporting agricultural products to Thailand without paying tariffs.¹⁷ Japan felt that it had to do something to keep its economic interest between Thailand and Japan since Thailand has been the major trade partner of Japan in this region.

Moreover, Japan wanted to get the privilege on investments in Thailand as the United States got. As the United States signed the Treaty of Amity with Thailand, this treaty provided the privilege for the United States on investments in Thailand. This treaty allowed American companies to maintain a majority shareholding or own its company 100%, the American companies are exempt from restrictions imposed by the Alien Business Law of 1972. Moreover, while the United States was negotiating FTA with Thailand, Japan became worried that the United States may get more privileges after the United States – Thailand FTA concluded.¹⁸ Japan realized that it had been the largest investor in Thailand both in terms of amount and numbers, it should get more privileges than others so Japan actively negotiated bilateral agreements with Thailand. Japan

¹⁵Yoshimastu, 479.

¹⁶Ministry of Foreign Affairs, Japan, "Economic Affairs Bureau," <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html>.

¹⁷ Kitti Prasirtsuk, "Japanese FTA and JTEPA," in *Thailand – Japan relations in the new century*, ed. Siriporn Wajjawalku (Bangkok: Borphitkarnpim Co.,Ltd., 2004), p.116. (in Thai)

¹⁸ Ibid., p.116.

expected that JTEPA might create opportunities for Japanese investment in Thailand such as facilitating the investment condition, exempting Japanese companies from restrictions imposed by the Alien Business Law.

Domestic reform

Japan realized that the traditional FTA could not solve its economic problem as it expected as it concerned only the elimination of tariff and non-tariff barriers. Therefore, Japan negotiated the new age of FTA which was the Economic Partnership Agreement with its partner. As EPA covered various aspects such as trade facilitation, investment, improvement of business environment, cooperation etc., Japan expected that the EPA would be the useful tools for Japan to encourage Japanese trade liberalization and structure reform.

As the Japanese domestic sector was protected from the government when Japan faced the economic recession more than a decade, it was undeniable that the domestic economy got negative effects. Therefore, the Japanese government wanted to reform the domestic sector, especially the agricultural sector. Moreover, the liberalization became popular in the international economy, Japan could not protect its domestic economy anymore. The domestic sector should have developed itself to be able to compete with foreign products that flew into Japan. Japan expected that JTEPA would stimulate Japanese domestic reform, especially the agricultural sector, as Thailand has been the major export in agricultural goods.

Thailand and Japan had the same reasons in initiative JTEPA. For Thailand, it expected that JTEPA would be an instrument to stimulate the economic growth of Thailand from the economic crisis and expected that this pact would strengthen and deepen economic relations between Thailand and Japan. Moreover, in the economic crisis, Thailand received Japanese assistance in various forms to recover its economy, these assistances made Thailand heavily dependent on Japan. Therefore, Thailand expected that the cooperation under this pact would support Thailand to develop its economy. For Japan, there were many reasons that encouraged Japan to negotiate JTEPA. Firstly Japan

wanted to stimulate its economic growth since Japan faced the economic recession more than a decade ago. Secondly, Japan worried about the disadvantaged competition after China - ASEAN FTA was concluded, therefore, it actively negotiated the Japan – ASEAN Comprehensive Economic Partnership and JTEPA in parallel as Thailand had been the important partner in this region. Thirdly, Japan wanted to get the privileges on investments from Thailand. Fourthly, Japan wanted to reform its internal affairs, it realized that the liberalization would stimulate domestic reformation. Although this pact provided opportunity for both countries to gain benefits, it depended on the capacity of each side to pursue its national interest from this pact.