

CHAPTER 4
POST EXPECTED JTEPA THAILAND – JAPAN ECONOMIC RELATIONS:
THE MORE EQUAL RELATIONS?

The Japan - Thailand Economic Partnership Agreement focuses on broadening and deepening economic relations that create mutual benefits by forging closer economic relations, enhancing more favorable investment climate, and generating greater business opportunities through cooperation, liberalization and facilitation in trade and investment between the two countries. The JTEPA marks a new era for Japan – Thailand strategic partnership.¹ Negotiation of the Economic Partnership Agreement (EPA) with Japan is one policy that the Thai government expects to promote a fair competition, improve unequal relations, decrease trade disputes and promote foreign direct investment and technological transfer. Although EPA is based on mutual benefits and national interests that derives from the result of trade creation. However, it does not mean that all sectors is better off, some sector may be worse off.

This chapter shows the gain and loss of JTEPA between Thailand and Japan economic relationship, and the opportunities and barriers that both countries face under JTEPA. It also shows the capability of each country in getting the potential benefits from JTEPA, and the measures that each government set up for helping the loser. National interest and interdependency are the main factors that both countries use in developing their policies to get the most benefit from JTEPA.

¹ Ministry of Foreign Affairs, “Japan – Thailand Economic Partnership Agreement,” Joint Press Statement Japan – Thailand Economic Partnership Agreement, September 30, 2005.

A. Expected gain and loss for Thailand

The Thai government realizes that the main responsibility of the ruler is to seek or pursue the national interest, therefore, Thailand is concerned about the national interest in developing each policy. JTEPA is the economic policy that the Thai government develops with its major trade partner to pursue its national interest both in Thailand and in Japan. Thailand expects that JTEPA will create more mutual benefits between Thailand and Japan. For trade, JTEPA provides opportunity for Thai exports to Japan by tariff reduction, facilitation on trade, deregulation of the export and import process. For investment, JTEPA facilitates Japanese investment in Thailand by creating a good investment environment in Thailand by setting up the dispute settlement. For ODA, Thailand highly expects benefits from the cooperation since the Japanese government gives ODA to Thailand in the form of cooperation in various fields to develop human resource and industry. Moreover, Thailand expects that this agreement may be the tool to support Thailand's initiative to change position from donor – recipient to a partnership.

Trade

Gain

Concerning trade between Thailand and Japan, Thai exporters face the difficulty in exports to the Japanese market since there are many trade barriers, especially non-tariff barriers. The Thai government expects that the elimination of trade barrier under JTEPA provides opportunity for Thai products to access into the Japanese market. For the tariff reduction, JTEPA reduces tariff of each product in different numbers and time. Table 4.1 shows the example of products that are eliminated from tariffs under JTEPA.

Table 4.1
The tariff elimination of Thai exports to Japan under JTEPA

Product	Current Tariff	Tariff Elimination under JTEPA
Fishery products		
Shrimp and prawn prepared, preserved and frozen or boiled shrimps and prawn	5%	Immediate tariff elimination
Prepared, preserved tuna, skipjack, other bonito	9.6%	Tariff elimination in 5 years
Fish, crab, Fish Fillet	3.5 – 10%	Tariff elimination in 5 – 10 years
Agricultural products		
Fresh, frozen vegetables	2.5 – 12%	Immediate tariff elimination or in 5 – 10 years
Mangoes, Mangosteens, Durians, Papayas, Rambutan, Okra, Coconut	10 – 12%	Immediate tariff elimination
Other fresh vegetables	4.8 – 32%	Tariff elimination in 5 – 15 years
Prepared, preserved chicken meat	6%	Tariff reduction from 6% to 3% in 5 years
Pet food	30 – 60 yen / kg.	Tariff elimination in 10 years
Rice bran oil	8.5 yen / kg.	4 yen / kg. in 5 years
Forestry products other than plywood, particle board and fiberboard	2 – 7%	Immediate tariff elimination
Particle board and fiberboard	2.6 – 6%	Tariff elimination in 10 years
Industrial products		
Textile and apparels	2.7 13.4%	Immediate tariff elimination
Petroleum and petrochemical products	2.5%	Immediate tariff elimination
Jewelry	2.7 – 10%	Immediate tariff elimination

Source: Japan – Thailand Economic Partnership Agreement

Remark: The enforcement of JTEPA started on November 1, 2007

As agricultural product are the main exports of Thailand, therefore, Thailand expects that the tariff and non-tariff reduction provides opportunity for Thai exports

access into the Japanese market. After the enforcement of JTEPA, 90% of tariffs of Thai agricultural and fishery goods are reduced or eliminated and the Japanese government also increases the quota for some kind of Thai goods such as bananas, pineapples and other fruits. Mr.Pornsil Patchrintanakul, deputy secretary-general of the Board of Trade of Thailand, hopes that this pact boosts farm and agro-industry exports to Japan by 20%.² Moreover, Thailand exports many kinds of industrial products to Japan such as computer parts, electricity boards, textiles, petrochemicals, plastic and jewelry. The tariff reduction provides opportunities for Thai industrial goods to be exported to Japan. Thailand expects that increasing Thai exports to Japan will make the trade deficit gap between two countries become smaller.

As Japanese patients rank number one of foreign patients in Thailand, (See Table 4.2) Thailand expects that Thai medical treatment may benefit from this agreement. Due to the fact that the Japanese government allows Japanese patients to be reimbursed for their medical treatment expenses from the social security fund when they receive the treatment in Thailand at the same rate as they do in Japan, which is 70% of medical charge. Other positive factors that boost the number of Japanese patients in Thai hospitals are the lower medical fees than in other countries.³ (See Table 4.3) Although, Thailand's treatment cost is slightly more expensive than India, it has become world famous for the high level of care, professional and experienced staff, and quality treatment that it can offer to all patients in its hospitals. Therefore, Thailand expects that the number of Japanese patients who receives medical treatment in Thailand may increase after the enforcement of this pact.

² "Business Back Trade Pact," *Bangkok Post*, March 31, 2007.

³ "Japanese Check in to Thai Hospital," *Bangkok Post*, June 7, 2007.

Table 4.2
Foreign Patients of Thailand

(by country)

Ranking	Foreign patients of each year					
	Country/Region	2001	2002	2003	2004	2005
1	Japan	118,170	131,584	162,909	247,238	185,616
2	USA	49,253	59,402	85,292	118,711	132,239
3	South Asia	34,857	47,555	69,574	107,627	98,308
4	England	36,778	41,599	74,856	95,941	108,156
5	Middle East	NA	20,004	34,704	71,051	98,451
6	ASEAN	NA	NA	36,708	93,516	74,178
7	Taipei/China	26,893	27,438	46,624	57,051	57,279
8	Germany	19,057	18,923	37,055	40,180	42,798
9	Australia	14,265	16,479	24,228	35,092	40,161
10	France	16,102	17,679	25,582	32,409	36,175

Source: Department of Export Promotion

Table 4.3**A Comparison of Treatment Costs for Foreign Patient in Each Country**

Currency : US Dollar

Procedure	USA	Thailand	India
Balloon Angioplasty	57,262 – 82,711	13,000	11,000
Stomach Surgery	47,988 – 69,316	15,000	11,000
Coronary Angioplasty	122,424 – 176, 835	12,000	10,000
Heart Valve Replacement	159,326 – 230,138	10,500	9,500
Hip Replacement	43,780 – 63,238	12,000	9,000
Uterine Surgery – hysterectomy, ovarian cysts, fibroid tumors, etc.	20,416 – 29,489	4,500	2,900
Knee Replacement	40,640 – 58,720	10,000	8,500
Breast Surgery	23,709 – 34,246	9,000	7,500
Back Surgery – Spinal Fusion, etc.	62,778 – 90,679	7,000	5,500

Source: Times, India

For tourism, Thailand has many attractive tourist destinations and can provide good services to Japanese tourists such as spas, massages etc. Therefore, the Thai government expects that the cooperation under JTEPA encourages Japanese tourists to travel in Thailand. Japanese tourists are high quality tourists in Thailand, there are millions of Japanese that tourists travel in Thailand each year and they pay a lot of money

for their trip. (See Table 4.4) Thailand expects that the increase of Japanese tourists will provide much benefit to the Thai economy.

Table 4.4
Tourism Receipts from International Tourist Arrivals in 2006

Country Of Residence	No. of Arrivals	Length of Stay (Days)	Per Capita Spending		Tourism Receipts	
			Baht/Day	\$US/Day	Mil. Baht	Mil. \$US
East Asia	7,942,143	5.70	4,285.46	113.07	194,003.71	5,118.83
ASEAN	3,556,395	5.26	3,835.27	101.19	71,744.85	1,893.00
Brunei	12,662	5.80	4,047.42	106.79	297.24	7.84
Cambodia	125,336	4.75	3,172.68	83.71	1,888.85	49.84
Indonesia	218,167	4.88	4,168.91	110.00	4,438.46	117.11
Laos	282,239	4.53	3,194.06	84.28	4,083.74	107.75
Malaysia	1,578,632	5.27	3,714.82	98.02	30,905.00	815.44
Myanmar	67,054	5.17	3,678.13	97.05	1,275.10	33.64
Philippines	202,305	6.96	3,975.62	104.90	5,597.84	147.70
Singapore	818,162	5.12	4,352.43	114.84	18,232.30	481.06
Vietnam	251,838	5.72	3,489.26	92.06	5,026.32	132.62
China	1,033,305	5.75	4,525.83	119.42	26,890.26	709.51
Hong Kong	463,339	4.82	4,816.06	127.07	10,755.69	283.79
Japan	1,293,313	6.63	4,593.55	121.20	39,388.10	1,039.26
Korea	1,101,525	6.25	4,715.54	124.42	32,464.35	856.58
Taiwan	472,851	5.99	4,298.37	113.41	12,174.60	321.23
Others	21,415	6.52	4,195.93	110.71	585.86	15.46

Source: Tourism Authority of Thailand

Note: 1US\$ = 37.90 Baht

Moreover, Thailand expects that this pact provides opportunity for Thailand to pursue its national interests in Japan. Although Japan allows Thai workers to work in various businesses in Japan but Thai workers face unfair practice from Japanese companies. Therefore, the Thai government asks Japan to improve the unfair practices. After the enforcement of JTEPA, Thai workers now get the wage that matches their skill

and at the same rate as Japanese workers who work in the same position get. Moreover, Thai workers get the fair social security such as the medical treatment from the Japanese government.⁴ Table 4.5 showed the number of Thai workers overseas. However, the Thai workers in Japan were only 3.55% of total Thai workers abroad.

Table 4.5
Thailand's Workers in Overseas

Country	2005	2006	2007	%
Taiwan	57,663	62,067	52,193	37.18
Korea	14,232	16,457	13,287	9.51
Republic of Korea	11,780	15,115	16,271	9.33
Singapore	8,746	9,312	10,903	6.26
Israel	6,585	7,218	8,002	4.72
Japan	3,139	7,516	5,762	3.55
United Arab Emirates	2,127	3,624	9,850	3.37
Brunei	5,216	5,141	4,143	3.14
Malaysia	4,915	3,418	3,432	2.54
Hong Kong	3,790	3,760	3,504	2.39
Others	21,474	27,218	34,570	18.01
Total	139,667	160,846	161,917	100

Source: Thailand Overseas Employment Administration, Department of employment, Ministry of labor.

⁴ Interviews with Mr.Cherdchai Chaivaivid, Ministry of Foreign Affairs, April 18, 2008.

Regarding the movement of natural persons, Japan eases some regulations that have been the barrier for Thai workers in Japan. For example, Japan allows Thai workers who get a certificate from the Ministry of Labor of Thailand to work in Japan without taking more courses in Japan as in the past. Another example is the reduction experience period of Thai chefs from 10 years to 5 years, therefore, Thai chefs who have five year's experience are allowed to work in Japan.⁵ Moreover, Thailand asks Japan to ease the process of visa approvals since many Thais complain that Japan is one of the most difficult countries to apply for a visa.⁶ The elimination of barriers under JTEPA provides more opportunity for Thai workers to work in Japan.

Thailand expects that the elimination of trade barriers under JTEPA decreases the trade deficit problem between Thailand and Japan since this pact provides opportunity for both Thai agricultural and industrial exports to Japan, and Thailand can import Japanese industrial goods at lower prices. For the trade in service, easing some conditions attracts Japanese patients to receive medical treatment in Thailand and Thai laborers can work in Japan easier than in the past. Moreover, this pact also solves the unfair practice between the two countries since Thai laborers get the fair wage and social security from Japan after JTEPA goes into force.

Loss

Although the Thai government realizes that JTEPA provides much benefit to the Thai economy by creating more trade activities between the two countries, it also concerns the drawbacks of this agreement. As Thailand's bilateral FTA initiative lacks any focus on restructuring of the domestic economy,⁷ many Thai sectors are not ready to compete with Japanese products that flow into Thailand after the enforcement of JTEPA. Therefore, it is difficult for these sectors to gain the benefits from JTEPA as the

⁵ "Thaksin, Koizumi Shake Hands on Deal," *The Nation*, September 2, 2005, 4B.

⁶ "Complex Japan 'Partnership,'" *The Nation*, September 4, 2004.

⁷ 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), p.265.

government expects. Moreover, many articles under JTEPA causes the trade deficit of the two countries to become wider, it increases imports of high technology. Consequently, the Thai economy is more dependent on Japanese goods.

It seems that the Thai agricultural sector appears to be the winner under JTEPA since Japan cuts tariffs on all key Thai agricultural exports, including shrimp, chicken, fruit and vegetables.⁸ In fact, Thai farm-product exporters do not get many benefits on tariff reduction as the government expects since Japan and other developed countries that do not impose high tariffs. Moreover, the agricultural sector has been the sensitive sector of Japan, it uses non-tariff barriers such as food safety standard, sanitary and phytosanitary to protect domestic markets from foreign products. The strict sanitary standard is the main barrier of Thai agricultural products to gain access into Japanese markets.

For the industrial sector, Thailand's concerns that the automobile, auto-parts, electronic and steel industries seriously suffers when JTEPA comes into full force since Thai SME entrepreneurs are not ready to compete with the Japanese companies that have high technology, highly skilled employees and capital. The automobile company in Thailand may buy Japanese automobile parts instead of local products since Japanese products become cheaper after tariff reduction. The Thai Auto Parts Manufacturers Association says that removing import tariffs on parts sharply lower demands for locally made products. Although JTEPA gives 8 – 10 years for the Thai automobile industry to adjust itself, it is not easy for adjustment since the constraints of budget and technology are evident. Consequently, the Thai SME manufacturers who cannot improve their products or adjust themselves for competition may go out of business. Moreover, the Thai Auto Parts Manufactures Association concerns that the actual benefits would go to Japanese manufacturers and their Thai joint ventures, not Thai companies.⁹

The Thai government worries that JTEPA may not only make trade deficit and dependency problems between Thailand and Japan, but also it may seriously distort the

⁸*Bangkok Post*, August 3, 2005.

⁹ "Parts Makers Up in Arms Against FTA," *Bangkok Post*, May 3, 2005, B1.

market mechanisms. Thailand may import heavy machines from Japan to enjoy zero import tax under the bilateral agreement, although it is second-best to the US in terms of quality, because imports from the latter is charged 10 percent import tax.¹⁰ To avoid these problems, the Thai government must set up policy to protect Thai importers who enjoy only the benefits of tariff without the concerns of the quality of products.

Moreover, Thailand is concerned that the Rules of Origin (ROO) may be an obstacle to Thai products instead of a privilege on tariff of Thai products. The ROO intends to ensure that only the products that use raw materials or are produced by the trade partners many benefits. Many Thai industries import raw materials from abroad, therefore, those products do not get this privilege such as canned tuna, electronic circuits etc. For the Thai fishery industry which is one of the main exports to Japan, it may not get the privilege on tariff from the ROO because 90% of tuna imports are from abroad. Although, JTEPA allows Thailand to use the tuna from the ship that is registered under the Indian Ocean Tuna Commission : IOTC), Thailand realizes that the rules of origin outline conditions on the source of products which qualify under the agreement are often used as a barrier to trade. Moreover, prepared poultry also gets affected from the strict conditions of ROO as it does not allow Thailand to import frozen or chilled chickens from abroad.

Investment

Gain

It seems that the investment liberalization favors the Thai economy in various ways such as capital inflows, employment, technology transfer, the development of human resources. Thailand realizes that without JTEPA the next wave of Japanese investment may have otherwise gone to neighboring countries with comparable levels of industrial development and infrastructure like Thailand. Moreover, Thai industries need

¹⁰Okamoto, p.277.

this agreement in order to maintain their competitive-edge because it includes technological transfers to help them upgrade their manufacturing processes.¹¹

From the survey of JETRO and the Japanese Commerce in Thailand, it shows that Thailand's FTA encourages Japan to expand its investment in Thailand in various industries, namely, steel, machinery, and the automobile industry. Although JTEPA does not provide significant privileges to Japanese investors as they have gotten from BOI, this pact provides the confidence to Japanese investors to run businesses in Thailand. Under JTEPA, Thailand facilitates investment conditions that have been barriers for Japanese investments such as the less than 50 percent equity participation by Japanese investors for manufacturing of automobiles that are allowed with no requirements to apply for authorization. However, the Thai government does not respond to the Japanese request that needs Thailand to treat Japanese investors as a Most-Favoured Nation (MFN) as Thailand has treated the American investors under the Treaty of Amity.

Moreover, Thailand expects that this agreement may create a new era of a Thailand and Japan relationship that will create the economic interdependence via investment since both sides seek new dimensions of promoting joint-venture investments between the two countries. The future joint-venture is quality investments which does not only produce finished products but also supports the expansion of supporting industries in Thailand with more contribution to technological development and R&D¹² Thailand expects that as the new era of investment develops, the potential and competitiveness of local industries will improve. This may decrease the dependency on Japanese technology.

The bilateral trade pact with Japan contributes Thailand's position to be a regional hub for the Japanese investment network in this region, especially in the automotive sector.¹³ It is undeniable that Japanese investment has played an important role in the development of the Thai automobile industry since the first stage. As Thailand has been the largest Japanese automobile production base in this region, therefore, Thailand expects that JTEPA supports Thailand to be "Detroit of Asia". However,

¹¹*The Nation*, March 30, 2007.

¹²JETRO, <http://www.jetro.go.jp/thailand/e/event/newslet/specissu/tja.htm>.

¹³"Thai – Japan FTA a Boost for Economy," *The Nation*, March 30, 2007.

JTEPA does not only develop the Thai automobile industry, it also influences the development of the supported industry such as steel and auto parts which are the main raw materials of automobile industry. As JTEPA provides opportunity for the processed food exports such as chilled chicken, boneless chicken, canned tuna, frozen fruit to Japan, this pact may encourage Japanese investment in this sector as well.

Thai manufacturers that import raw material from Japan get benefits from this agreement since the cost of Japanese product are lower when this agreement takes effect. Therefore, both semi-processed and finished products have an advantaged on competitive pricing in exports to Japan or other countries. For the Auto-parts manufacturers that mainly import Japanese steel as their raw material get much benefit from this pact since this steel is not only cheaper but it meets Japanese manufacturers' specifications.¹⁴ Moreover, the decreasing trade obstacle and tariff on industrial goods also support Thailand's structural reform and enhances its efficiency since Thailand can import high quality machinery and technology from Japan at lower prices.

Thailand expects that JTEPA will attract a Japanese investment into Thailand and keep the existing Japanese investment in Thailand since Thailand needs Japanese investment to support its industrial development. Moreover, Thailand expects that the investment liberalization also encourages local industry to develop its capacity to compete with Japanese products that are imported into Thailand.

Loss

Although the investment liberalization under JTEPA provides benefits to the Thai industry, many industries get negative effects from this pact. While the Automobile industry get benefits from this pact, the supported industries such as auto parts and the steel industry are critically affected, due mainly to Japanese manufacturing which has higher technology than the Thai one. To support the expansion of the automobile industry, both Japanese auto parts and steel companies plan to increase investment in Thailand. It

¹⁴ "Board of Trade: FTA to Boost Exports to Japan 20%," *The Nation*, March 31, 2007.

is very difficult for Thai auto parts and steel companies to compete with Japanese ones as Samart Deebhijarn, director of the Thai Auto Part Manufacturers' Association, says the Thai auto parts industry has low technology compared to Japan.¹⁵ Consequently, Thai companies that cannot compete with Japanese ones may leave the business and then many Thai employees will lose job.

As the price of Japanese products become lower after the execution of JTEPA, some critics are concerned that Japanese carmakers may buy cheaper auto parts from affiliates based in their home country instead of buying locally.¹⁶ This makes the trade deficit and dependency problem between the two countries more serious. Moreover, critics worry that the benefit that Thailand expects from this pact may go to Thai and Japanese joint venture companies instead of going to Thai companies since the joint venture companies are more ready for investment liberalization than Thai companies. According to Korrakod Padungjitt, a member of the Iron and Steel Industries Club of the Federation of Thai Industries, the Thai steel industry has a total value about Bt200 billion, only 30 percent of the industry, large companies that have joint-venture businesses with Japan survive.¹⁷ The investment liberalization puts Thailand at a disadvantage since some Thai industries may collapse and many Thai manufactures rely on Japanese goods.

For the investment in the service sector, Thailand allows Japanese companies to set up many businesses in Thailand, including consultancy services in logistics, marketing, and personnel management.¹⁸ Although Japanese companies plan to provide service only to Japanese businesses in the first stage but in the long run it expands its service to Thai companies. Consequently, Thai businesses may be beat by Japanese companies. It seems that the Thai government has not prepared a measure to help the loser in this sector.¹⁹

¹⁵ “FTA with Japan Seen as a Threat to SMEs,” *The Nation*, April 2, 2007.

¹⁶ “FTA to Boost Investments from Japan : Deal to Pave Way for More Integration,” *Bangkok Post*, March 6, 2007.

¹⁷ “FTA with Japan,” *The Nation*.

¹⁸ Ministry of Foreign Affairs, *Japan – Thailand Economic Partnership Agreement* (November 10, 2006), p.20.

¹⁹ “JTEPA must review and correct before sign,” *Manager Weekly*, January 12, 2007.

As the Thai industry does not prepare itself for investment liberalization, many industries such as auto parts, and the steel industry may seriously be affected when JTEPA takes effect. Thai SMEs that cannot compete with the Japanese manufactures that have capital and high technology to develop its productivity, are beat out of business line. However, the Thai government does not have any policy to prevent this problem before it occurs.

B. Actual gain and loss of Thailand

Trade

Gain

From the statistics of Ministry of Commerce, the trade volume between Thailand and Japan increased after JTEPA went into force. In January – May 2007, the total amount of Thai agricultural exports to Japan was 1,422.6 million \$ dollars, the agricultural product was 878.4 million \$ dollars and the agro-industrial product was 544.2 million \$ dollars while in the same period of 2008, the volume of agricultural exports increased to 1,760.3 million \$ dollars which the agricultural product was 1,110.3 million \$ dollars and the agro-industrial product was 650 million \$ dollars. The volume of Thai industrial exports to Japan also increased from 5,431.9 in 2007 to 5,890.6 million \$ dollars in 2008.²⁰ The Thai exports that increased after JTEPA took effect were rubber, plastic products, machinery and parts, and prepared poultry. It seemed that the elimination of trade barriers under JTEPA stimulated Thai exports to Japan.

²⁰ The trade statistic of Thailand and major trade partner, Ministry of Commerce website.

Table 4.6
Thailand – Japan Trade Relations

(million \$ dollar)

Description	2007 (Jan – May)	2008 (Jan – May)
Exports		
Agricultural product	878.4	1,110.3
Agro-industrial product	544.2	650.0
Industrial product	5,431.9	5,890.6
Mineral Fuels, Oil etc.	242.4	469.1
Others	99.4	0.1
Total export	7,196.3	8,120.2
Imports		
Fuel	47.2	45.7
Capital goods	4,105.1	5,117.2
Raw material and semi	5,203.8	6,622.1
Consumer products	543.5	626.4
Vehicle and transportation equipment	1,013.9	1,231.8
Others	33.6	2.1

Source: Information and Communication Technology Center of Ministry of Commerce

For the trade in service, after JTEPA reduced the experience period of Thai chefs from 10 years to 5 years, the acceptance of degrees from Thai universities and the certificates from the Ministry of Labor provided opportunity for Thai worker to easily work in Japan. The number of registered Thai skilled labores slightly increased as Manoon Punyakiriyakorn, the director general of the Employment Department, said there

were now 1,974 workers registered in Japan as of January 1, 2008, up 180 persons from last year, an increase of nearly 10 percent.²¹

Loss

Thai auto-parts and the steel industry got affected when the Japanese industrial products import into Thailand. Industrialists said that opening up the auto sector resulted in a sharp increase among imported Japanese cars and parts which affected domestic producers and potentially inflating the country's trade deficit with Japan.²² Table 4.7 showed that only 5 months of this year, most imports from Japan have increased. The parts and accessories of vehicle imports from Japan increased approximately 12 % and the iron and steel products increased 18%, other metal ores, metal waste scrap increased 33.33% compared with the same period from last year.

Table 4.7
Thailand's principal imports from Japan

No.	Description	Value : million baht		Growth rate (%)	
		2007 (Jan – May)	2008 (Jan – May)	2007 (Jan – May)	2008 (Jan – May)
1	Machinery and parts	72,999.2	83,335.7	-9.23	14.16
2	Iron, steel and products	51,416.4	61,042.5	4.49	18.72
3	Electrical machinery and parts	38,036.6	43,870.5	-11.78	15.34
4	Electrical circuit panels	41,646.4	38,897.3	9.29	-6.60
5	Chemicals	30,758.3	38,553.2	-3.13	25.34

²¹MCOT, "Number of registered Thai workers in Japan rises slightly," <http://enews.mcot.net/view.php?id=2369&t=4>.

²² "Thaksin tells businessmen to shape up for free trade," *Bangkok Post*, May 7, 2005, B1.

6	Parts and accessories of vehicles	28,754.7	32,413.6	-11.77	12.72
7	Other metal ores, metal waste scrap	14,844.3	19,792.2	16.07	33.33
8	Scientific, medical, testing appliances	14,193.5	14,919.4	5.28	5.11
9	Plastic products	11,817.7	13,736.1	-13.66	16.23
10	Metal manufactures	10,870.9	12,642.0	-7.94	16.29
11	Jewellery including silver bars and gold	3,834.0	9,516.6	51.61	148.21
12	Miscellaneous manufactured articles	9,634.1	9,453.4	11.36	-1.88
13	Computers; accessories and parts	4,588.1	6,012.0	-47.66	31.03
14	Diodes, transistors and semi conductor	5,018.1	4,955.7	-24.29	-1.24
15	Buses and trucks	4,098.2	3,644.7	45.65	-11.07
16	Printed circuits	3,314.5	3,505.1	-16.14	5.75
17	Vegetables and vegetable products	2,851.1	3,463.3	3.68	21.47
18	Paper and paper products	3,285.2	3,295.1	0.20	0.30
19	Other capital goods	2,345.8	2,811.1	-13.58	19.84
20	Stranded wire and cable	2,467.6	2,781.4	3.91	12.71

Source: Information and Communication Technology Center of Ministry of Commerce with Cooperation of the Customs Department.

It was not only the Thai SMEs that were affected from this pact, the Thai exporters also were effected. Although Thailand expected that the elimination of trade barrier under JTEPA would increase both agricultural and industrial exports to Japan, in fact, many industrial exports to Japan decreased, especially electronic integrated circuits and electrical equipment and parts which were the major exports to Japan. The electronic integrated circuits dropped from 17,984.5 to 14,712.5 million baht. (See table 4.8)

Table 4.8
Thailand's Principal Exports to Japan

No.	Description	value : million baht		Growth rate (%)	
		2007 (Jan – May)	2008 (Jan – May)	2007 (Jan – May)	2008 (Jay – May)
1	Electronic integrated circuits	17,984.5	14,712.5	10.18	-18.19
2	Automatic data processing machine	16,322.2	14,568.8	3.08	-10.80
3	Rubber	11,375.5	12,387.4	-27.18	8.90
4	Motor cars, parts and accessories	11,244.0	10,259.5	16.01	-8.76
5	Refine fuels	475.7	8,577.8	-36.84	1,703.24
6	Prepared or preserved fish, crustaceans	6,151.5	7,227.5	-7.64	17.49
7	Lenses	7,956.2	6,887.2	20.21	-13.44
8	Machinery and parts	6,275.8	6,836.7	5.81	8.94
9	Prepared poultry	4,507.7	6,544.1	-12.71	45.18
10	Plastic products	5,434.2	6,304.2	3.63	16.01
11	Ceramic products	3,969.9	6,207.2	28.99	56.36

12	Other electrical equipment and parts	8,413.4	6,145.6	58.30	-26.96
13	Aluminum products	5,902.5	5,862.1	12.56	-0.68
14	Iron and steel and their products	5,236.4	5,652.4	12.36	7.95
15	Rubber products	3,845.4	5,448.5	-2.12	41.69
16	Spark-ignition reciprocating internal	4,654.1	5,260.4	71.11	13.03
17	Semi-conductor devices, transistor	4,774.0	4,351.6	8.61	-8.85
18	Radio-broadcast receiver, television	5,189.3	4,317.8	-19.60	-16.79
19	Polymers of ethylene, propylene, etc.	3,055.2	4,077.6	-2.85	33.46
20	Air conditioning machine and parts	4,750.8	3,910.7	-8.46	-17.68

Source : Information and Communication Technology Center of Ministry of Commerce with Cooperation of the Customs Department

For the movement of natural persons, as Thailand asked Japan to ease the condition of applying for a visa, Japan lessened only the conditions of the working visa for Thai chefs, instructors of Thai dance, music etc. Thai tourists still faced the difficulties in applying for visa to Japan. For the Thai chef issue, although Japan reduced the experience period of Thai chefs, they still faced the difficulty to work in Japan. Regarding to Maki Aoki – Okabe, the Japanese law for foreign labor is very strict. The

foreign laborers must get the national license before they work in Japan, the application process and the exam of the national license was very difficult.²³

Investment

Gain

As JTEPA facilitated investment conditions and provided the confidence to Japanese investments in Thailand, therefore, Japanese investments increased after JTEPA took enforcement. During January – May 2007, 135 Japanese projects were approved was 135 projects, the capital registered was 5.8 billion baht while in the same period of 2008 the Japanese approved 131 projects, the capital registered was 10.5 billion baht.²⁴ Although the number of projects of 2008 was less than 2007, the capital registered was almost two times. The increased Japanese investments stimulated the economic growth and supported Thai economic development.

Loss

Some Thai industries such as the auto-part industry, steel industry etc.; got effect from the increasing Japanese investments. As Japan had high technology and capital in the production process that Thailand did not have. Therefore, Japanese manufactures could produce high quality products in short time while Thailand could not. As a consequence, the sales volume of Thai companies decreased after Japanese companies increased their investments in Thailand.

Moreover, Thai auto-parts manufacturer was damaged from the JTEPA as the zero import-tariff rate. Therefore, the high technology was not transferred to Thailand as Thavorn Chalassathien, the secretary general of the Thai Auto-parts Manufacturers

²³Interviews with Maki Aoki - Okabe, the Visiting Research Fellow at Faculty of Political Science, Thammasat University, July 24, 2008.

²⁴Board of Investment of Thailand, http://www.boi.go.th/english/download/statistics_foreign_registered/114/FREG085.pdf.

Association said, there would be fewer technology transfer from Japanese advanced auto-parts manufacturers as Thailand would lose of its appeal as a production base.²⁵

C. Government's measures and policy of compensation

This pact provides an opportunity for Thailand to pursue its national interests but Thai entrepreneurs lack the capacity to gain from those benefits. Therefore, the Thai government should set up a measure or policy to support them to maximize benefits from this pact. As Thailand has negotiated FTAs with many countries, the Thai government has approved a proposal for 10 billion baht for assisting those who got the negative impacts of FTAs. For the agricultural sector, this fund aims to reform the agricultural sector and strengthen the competitiveness of Thai farmers to increase quantity and quality of their products within the next 10 years. The allocation of this fund directs to assist the local farmers to switch to competitive crops or diversify into alternative production patterns.²⁶ This fund does not help only the farmers but other sectors also get the assistance from this fund. However, this fund does not directly provide money to the losers to develop their products; it rather supports them to do the research on the development of their products.

However, the Trade Negotiations Department of Ministry of Commerce has found that Thai exporters utilize very little of the privileges given from JTEPA, therefore, the Minister of Commerce, has instructed the Trade Negotiations, the Foreign Trade and the Export Promotions departments to draft the plan to encourage Thai exporters to use FTA benefits.²⁷

²⁵ "Thailand – Japan Pact Could Damage Auto-Parts Industry," *Bangkok Post*, March 3, 2005.

²⁶ Zamroni, "Thailand's Agricultural Sector and Free Trade Agreements," *Asia-Pacific Trade and Investment Review* 2, no.2 (December 2006): 64.

²⁷ Board of Investment of Thailand, "Thai Exporters Urged to Use More FTA Privilege," http://www.boi.go.th/thai/how/press_releases_detail.asp?id=2305.

Although the Ministry of Commerce convinces Thai farmers to take the benefit from this pact, the farmers are uncertain whether they are able to enjoy full benefits from JTEPA due to the stringent requirements on food safety. Regarding to Dolyakit Wongnaknoi, a farmer from Nonthaburi province who plants green rosella for export to Japan, Japan has set a very high standard for food safety. For example, the acceptable level of chemical contamination is set at 0.01%.²⁸ To increase exports to Japan, Thai farmers must prepare and empower practical training in skills and technology in agricultural production, and a productive and innovative workforce. Thai farmers need access to modern production technology so that they can produce high quality farming product that meet the standards and consumers' requirement of Japanese markets. Due to the constraint of budget and technology, the farmers ask the government to support their development. For the agricultural product, the Ministry of Agriculture and Cooperatives has agency to support farmers to develop their products.²⁹

Although Thai labor's welfare improves under JTEPA, the government concerns on the capacities of Thai labor. If Thai laborers' skills do not meet the Japanese standard, they do not get this benefit. Therefore, the Thai government supports Thai laborers to test and develop their skill at the institution of the Ministry of Labor before they go to Japan. Moreover, the Department of Skill Development plans to send Thai laborers to be trained in Japan.³⁰

D. Expected gain and loss for Japan

Japan expects that JTEPA creates its national interest both in Thailand and in this region since Thailand has been an important economic partner of Japan in this region. For trade, Japan expects that its exports' volume to Thailand increases after tariff and

²⁸ "Farmers call for government help," *Bangkok Post*, July 4, 2007.

²⁹ Interviews with Dr. Rangsit Pooiripinyo, Ministry of Agriculture and Cooperatives, March 12, 2008.

³⁰ Ministry of Labor, The announcement of Department of Skill Development.

non-tariff reduction. Moreover, Japan can use the privilege on tariff that Thailand gets from AFTA and Generalized System of Preference (GSP) from the United States and the EU to export goods to those countries. For investment, the investment liberalization under JTEPA provides more confidence for Japanese investors to invest in Thailand. For the cooperation, Thailand and Japan set up the cooperation in many fields, those projects support Japanese businesses in Thailand and stimulate the restructuring of the Japanese agricultural sector. Moreover, Japan expects that this pact will enable it to have better access in Thailand and to the markets of other members of the Association of Southeast Asian Nations through the ASEAN Free Trade and also supports it to conclude Japan – ASEAN Economic Partnership Agreement.

Trade

Gain

Japan expects that the elimination of trade barriers between the two countries under JTEPA creates more benefit for its economy. This agreement provides more opportunity for Japanese goods to gain access into Thai markets, especially industrial products which are the main exports to Thailand. This pact supports Japan to pursue its national interest from the economic relations between the two countries.

Japan has exported many industrial products to Thailand in high volume in each year (See table 4.9), tariffs are the trade barrier of Japanese products. Therefore, Japan expects that the tariffs and non-tariffs reduction after the enforcement of JTEPA provides opportunity for Japanese industrial goods to gain access into Thailand. Moreover, Japanese importers also get the benefits from JTEPA. As Japan has been a major food importer, it has imported huge amounts of food products from Thailand each year. This pact makes the cost of Thai foods cheaper, therefore, the Japanese consumers buy Thai food at a low price.

Table 4.9
The major Japanese exports to Thailand in 2005 – 2007

Product	Value : Million US\$		
	2005	2006	2007
Machinery and parts	4,931.34	4,936.57	5,285.90
Iron, steel and products	3,565.98	3,249.84	3,703.82
Electrical circuit panels	2,583.67	2,419.65	2,941.58
Electrical machinery and parts	2,854.05	2,528.09	2,862.09
Chemicals	1,875.85	1,999.98	2,248.46
Parts and accessories of vehicles	2,166.49	2,049.12	2,081.84
Other metal ores, metal waste scrap	665	890.26	1,113.38
Scientific, medical, testing appliances	810.85	856.54	960.01
Plastic products	808.11	817.19	883.53
Metal manufactures	805.22	801.36	764.32

Source: Department of Export Promotion, Ministry of Commerce.

The agricultural sector which has been protected from the government for many decades, the Japanese government realizes that it cannot protect this sector anymore since Japan has concluded FTAs with many trade partners so Japan must liberalize its agricultural sector as a WTO requirement. Japan expects that JTEPA encourages the restructuring of the agricultural sector since agricultural goods have been the main

exports of Thailand. After this pact goes into force, Thai agricultural goods may flow into Japanese market, therefore, the Japanese farmers need to develop themselves to compete with Thai products. If the Japanese farmers do not develop or adjust themselves, they may be beat from Thai goods.

For the movement of natural persons, Japan expects that this pact provides more convenience for Japanese businessmen in Thailand as the Thai government facilitates the regulations for applying for visas and work permits for Japanese businessmen. Moreover, Thailand has set up the One Stop Service Center for providing Japanese businessmen to apply for a visa and a work permit at one time.³¹

Loss

Many Japanese sectors complain that Thailand does not fully liberalize its market for Japanese industrial goods, especially steel and auto parts industries which are the main exports to Thailand. Although Japanese steel and the auto parts industries expect that JTEPA paves the way for their products to penetrate into the Thai market but the some regulations become a barrier for Japanese goods. As the Thai government needs the preparation period for its enterprise to adjust or develop itself, therefore, Thailand reduces the tariff of industrial products step by step. For steel, Thailand eliminates the tariffs of Japanese steel only the kind that cannot be produced in Thailand or the steel that is in shortage in Thai market. Other kinds of steel, Thailand does not reduce the tariff until the 11th year after JTEPA goes into force.³² Therefore, Japanese steel and the auto parts industry do not get the potential benefits from this pact as it expects.

For the agricultural sector, the Japanese government worries that the Japanese farmers who cannot develop their products to compete with Thai farm products may be beaten out from the market. As the Japanese agricultural sector has been protected by the government for many decades, they are weak and cannot improve productivity or efficiency. Regarding to Ms. Maki Aoki – Okabe, although Thai agricultural goods flow

³¹ Ministry of Foreign Affairs, *Japan – Thailand Economic Partnership*, p.26.

³² *Ibid*, p.8.

into Japanese market, it is only the alternative for Japanese consumers. Due to the Japanese consumer's behavior which believes in the quality of Japanese products, they still buy Japanese products. Therefore, Thai agricultural goods do not beat Japanese goods.³³

Investment

Gain

The Japanese government expects that this agreement creates much benefit for its investor. Although this pact does not provide any privilege to Japanese investors as they get from the BOI but Thailand has set up "One Stop Service Centre" for Japanese investors to apply for a visa and a work permit at one time. Moreover, BOI sets up the Liaison Office to provide the information for Japanese investors.³⁴ Before this pact takes effect, Japanese investors worry that they may not get the fair treatment when they have problem with the Thai government or private sector. Under this pact, there is the settlement of investment disputes between the two parties, this regulation makes Japanese investors more confident that they get fair treatment when they have problems with the Thai side.³⁵ Moreover, Japanese companies realize that they can use the privilege on GSP that the United States and EU gives to Thailand when they export their products from Thailand. Therefore, many Japanese companies plan to increase their investment in Thailand. For Toyota Motors (Thailand) company, it does not only increase investments in Thailand but it plans to develop Thailand to be the global production base.³⁶

For Japanese manufactures that import raw material from Japan also gain the benefit from the tariffs reduction since the cost of raw materials becomes cheaper. This is

³³ Interviews with Maki Aoki - Okabe, the Visiting Research Fellow at Faculty of Political Science, Thammasat University, July 24, 2008.

³⁴ *Thailand's Investment Promotion Journal*, June 2007.

³⁵ Interviews with Dr. Bongkot Anuroj, Ministry of Industry, Board of Investment, May 2, 2008.

³⁶ "The Attitude of 6 Japanese Companies' President," *Investment Promotion Journal* 18, no.10 (October 2008): 55.

the advantaged competition of Japanese products in the international market. Japan does not get the benefit only from the tariffs elimination between Thailand and Japan, it also gains the benefits from AFTA since Thailand has been a member of ASEAN. Therefore, Japanese businesses can take advantage of the opportunities that already exist in Thailand and the Thai position as the gateway to other markets in this region.

Loss

It seems that the Japanese investment sector does not get the negative effect from JTEPA since Thailand cannot compete with Japanese investors in Japan. Although Japan widely opens its market for foreign investment, Thai investors lack the capacity to invest in Japan. However, some Thai businessmen are interested in opening Thai restaurants in Japan but Thai restaurants gains a few market shares in the Japanese food sector.³⁷ Therefore, Thai restaurants do not the rival Japanese restaurant.

E. Actual gain and loss of Japan

Trade

Gain

After JTEPA took effective, the Japanese exports' volume to Thailand increased, especially among industrial products such as machinery and parts, iron, steel and products, electrical machinery and parts, parts and accessories of vehicles etc. From the statistic of the Ministry of Commerce, in January – May 2007 the amount of capital goods was 4,105.1 million dollars, in the same period of 2008 it increased to 5,117.2 million dollars. Table 4.7 showed the volume of 16 items of major Japanese exports to Thailand increased compared with the same period last year. Moreover, Japanese

³⁷ Interviews with Dr. Bonggot Anuroj, Ministry of Industry, Board of Investment, May 2, 2008.

consumers also gained the benefits from this pact since Japanese importers imported the lower cost Thai food so they could buy various Thai foods at lower prices than in the past.

Loss

The Japanese steel industry complained that Thailand is still protected by the local industry, therefore, they could not export steel to Thailand as they like be. Therefore, Japanese steel industry asked the Japanese government to renegotiate with the Thai government to open this sector more by increasing the quota or reducing tariffs. Japanese steel industry expected that Thailand would provide more opportunities for Japanese steel to penetrate into the Thai market by increasing quota or reducing more tariffs.

Investment

Gain

Japanese manufactures in Thailand gained the benefits of the tariff reduction as they could import the raw material from Japan of low price. For example, the tariffs of parts and accessories used in automatic data processing machines were eliminated from 0 – 40% to 0% after JTEPA took effect. It was an advantage for Japanese products to compete in the global market. Moreover, Japanese manufacturers in Thailand could gain the tariff privilege on AFTA when they exported to ASEAN countries or when they got the GSP when Japan exported from Thailand to EU or the United States. For Japanese businessmen, it was more convenient than for other foreign businessmen in applying for visas or work permits as Thailand provided the One Stop Service Center for Japanese businessmen to apply for them at one time. Moreover, Japanese investors easily got the information from Thailand since BOI set the Liaison Office to provide the information for Japanese investors.³⁸

³⁸ *Thailand's Investment Promotion Journal*, June 2007.

F. Partnership

Interdependence

JTEPA is developed on the basis of cooperation to create mutual benefit to Thailand and Japan economic relations by generating greater business opportunities, facilitating trade and investment between the two countries. It seems that this pact increases interdependence between the two countries as trade volume between the two countries increase, and each partner imports goods from the others to support its economy. For the investment, Thailand needs Japanese investment to develop its economy and nation while Japan gains the benefits from relocating its production base to Thailand as Thailand can provide raw material, skilled labor a market for Japan.

Under JTEPA, Thailand and Japan has agreed to set up 7 cooperation projects such as Japan – Thailand Steel Industry Cooperation Programme, Automotive Human Resources Development Institute Project and may more projects Thailand highly expects that the cooperation projects will help to develop Thai industry to be more efficient since the main objective of each project is to improve the capacity of Thai industry. As a result, the degree of dependency between Thailand and Japan is decreasing, especially the high technology and industrial goods. From the Japanese point of view, the development of Thai capacity supports Japanese business in Thailand.

Although Japan plans to transfer technology to Thailand under Automotive Human Resources Development Institute Project, Japan – Thailand Steel Industry Cooperation Programme and Textile and Apparels Cooperation, Thailand may not get benefits as it expects. Regarding to Ms. Ni-On Sukhum, Plan and Policy Analyst of Ministry of Industry, the technology transfer between Japanese and Thai staff is allowed only in the Thai – Japanese joint-venture company.³⁹ Therefore, under this circumstance, the technological transfer problem is still the problem between the two countries and then

³⁹Interviews with Ms.Ni-On Sukhum, Ministry of Industry, April 10, 2008.

Thailand still imports high technology from Japan or hires the Japanese experts. Consequently, Thailand continually depends on Japanese high technology.

For the cooperation on the agricultural sector, Thailand expects that this project will help to develop Thai agricultural goods to meet Japanese food safety standards then it provides opportunity for Thai agricultural products to access into Japanese markets. However, Dr. Rangrit said, Japan may not give the full support to develop the quality of Thai products since the agricultural sector is the sensitive sector of Japan.⁴⁰ The Japanese government worries that Thai farm products may beat the Japanese goods since Thai products are cheaper than the latter.

G. Benefit and Burden

Thailand and Japan realize that they cannot gain only the benefit from JTEPA, but they must share the burden from this pact too. While the exporter and importer gain benefits from tariff reduction, the government loses the revenue from tariff reduction. Moreover, the Thai government approves a budget to assist the sectors that get effect from the pact. Although this pact creates business opportunities for many Thai sectors, some industries that are not ready for liberalization may leave the business.

Concerning the cooperation, although the 7 cooperation's projects create mutual benefit to Thailand and Japan economy but Japan plays a more important role as a supporter to each project. Therefore, the Japanese government is responsible to provide capital and technology as well as to dispatch experts to implement the projects.⁴¹

⁴⁰ Interviews with Dr. Rangsit Pooiripinyo, Ministry of Agriculture and Cooperatives, March 12, 2008.

⁴¹ Ministry of Foreign Affairs, *Japan – Thailand Economic Partnership*, pp.35 – 45.

H. Equal Partnership?

Although Thailand expects that JTEPA will mark a new era for Thai – Japanese strategic partnership by generating a great number of business opportunities through cooperation, facilitation on trade and investment, Thailand does not prepare itself for liberalization. Moreover, the Thai government does not have any policy to develop Thai economic capacity to compete with the Japanese one before this pact takes effect. Therefore, Thailand cannot gain the most potential benefit from this pact. For the cooperation, Thailand highly expects that the cooperation projects will support the development of Thai economic capacity. However, these projects are only the willingness of both countries. Thailand may not get the benefit as it expects if Japan does not implement the projects. It seems that JTEPA cannot improve unequal economic relations between Thailand and Japan as the Thai government expects in the short or medium term. For Japan, JTEPA provides more opportunity for Japanese exports to access into Thai markets but some regulations become a barrier for Japanese exports. However, Japan gains many benefits from the investment sector since Japan uses Thailand as a production base and takes privileges on AFTA to export its products to ASEAN countries. Moreover, Japan gains the benefit of GSP when it exports from Thailand to the United States and EU. For the cooperation projects, Japan expects that these projects create mutual interests for both countries in the future.