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Japan's Dual-Track Free Trade Agreement in ASEAN: A study of Japan and Thailand

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### A. Introduction

The Association of Southeast Asia Nations (ASEAN), established in 1967, currently comprises of ten member states; Indonesian, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Viet Nam, Lao PDR, Myanmar, and Cambodia. The economic integration of ASEAN has made this Southeast Asia region fascinating market with its high population of 590 million people and income of 1,496 US\$ billion in 2009.

ASEAN state members have high dependency on the international trade, which is expressed by the high ratio of trade to GDP. Comparing the ratio of the commercial exports of merchandise to GDP of ASEAN and the world, ASEAN's ratio at 55.3 percent is greater than other Asia counties and the world. ASEAN member countries established the ASEAN Free Trade Area (AFTA) in 1992 which was in effect in 1993 to eliminate intra-regional tariffs among ASEAN member states through the Common Effective Preferential Tariff (CEPT) scheme. As for the economic goal, ASEAN has a plan for regional economic integration to become the ASEAN Economic Community (AEC) by 2015. In this regards, the ASEAN economic community blueprint states that AEC will make ASEAN become a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy. ASEAN is still the largest of ASEAN exports. In 2010, ASEAN's important export markets are ASEAN, 27-European Union state members, China, Japan, USA, Korea, India, Australia, Hong Kong, and Taiwan, where as ASEAN, China, Japan, and 27-European countries are the largest source of ASEAN imports. Japan is considered one of the largest export and import markets of ASEAN. (Table 1)

**Table 1 :** ASEAN and trading partners in 2010

	Export Value (US\$ million)	% share of EXP		Import Value (US\$ million)	% share of IMP
ASEAN	267,981	25.0	ASEAN	251,823	25.8
EU-27	115,036	10.7	China	119,013	12.2
China	112,999	10.6	Japan	103,746	10.6
Japan	102,890	9.6	EU-27	93,548	9.6
USA	100,464	9.4	USA	86,220	8.8
Republic of Korea	44,980	4.2	Republic of Korea	53,648	5.5
India	36,028	3.4	Hong Kong	21,292	2.2
Australia	35,250	3.3	Australia	20,175	2.1
Hong Kong	33,039	3.1	India	19,414	2.0
Taiwan	16,122	1.5	Taiwan	18,989	1.9
Others	206,147	19.2	Others	186,917	19.2
Total	1,070,941	100.0	Total	974,789	100.0

Source: ASEAN Trade Statistics Database

### *Country-Regional Trade Agreements*

Regional Trade Agreement (RTA) is defined by World Trade Organization as an agreement concluded between countries which are not necessary to be in the same geographical region. There has been an increasing trend of RTAs around the world since 1990s. The intra-regional merchandise trade in Asia at 2,464 Billion dollars or 52.6 percent of the trade in Asia, which is the highest share compared to the rest of the world, reflects the importance of intra-Asia trade. From this fact, it can be expected that there would be more RTAs in this Asian region. In this study, any trade agreements of ASEAN and non-ASEAN economy are therefore considered as RTAs while any trade agreements of ASEAN-state members are considered as Bilateral Trade Agreements (BTAs). The current FTA of ASEAN and the third country can be summarized in Table 2.

**Table 2** : Country-ASEAN Free Trade Agreements

1 Jan 1993	•ASEAN Free Trade Area
1 July 2005	•ASEAN- <b>People's Republic of China</b> Comprehensive Economic Cooperation Agreement
1 Jun 2007	•ASEAN- <b>Korea</b> Comprehensive Economic Cooperation Agreement
1 Dec 2008	•ASEAN- <b>Japan</b> Comprehensive Economic Partnership
1 Jan 2010	•ASEAN- <b>Australia and New Zealand</b> Free Trade Agreement
1 Jan 2010	•ASEAN- <b>India</b> Comprehensive Economic Cooperation Agreement
<b>Under Negotiation: 5 May 2007</b>	•ASEAN- <b>EU</b> Free Trade Agreement
<b>Proposed: 13 Aug 2009</b>	•ASEAN- <b>Pakistan</b> Free Trade Agreement

Source: Asian Development Bank

The FTA option was first initiated by Singapore as a major instrument of its trade strategy, causing the move toward in BTA for Thailand and other ASEAN member states. (Chirathivat, 2006). There are five Free Trade Agreements (FTAs) that ASEAN has undertaken with non-ASEAN state members, comprising of China, Korea, Japan, Australia and New Zealand, and India. ASEAN pioneered her first FTA together with China by signing the ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement which was in effect on 1 July 2005, followed by ASEAN-Korea Comprehensive Economic Cooperation Agreement on 1 July 2005, ASEAN-Japan Comprehensive Economic Partnership on 1 December 2008, ASEAN-Australia and New Zealand Free Trade Agreement on 1 January 2010, and ASEAN-India Comprehensive Economic Cooperation Agreement on 1 January 2010. ASEAN is under the process of FTA negotiation with European Union and Pakistan.

However, ASEAN state members have also undertaken to build 26 Bilateral Trade Agreements with non-ASEAN states. Singapore has the engaged in 10 in-effect BTAs which is almost half total BTA in ASEAN. It is noticed that some of ASEAN state members have engaged in the BTA with a country that has an existing RTA with ASEAN. In other words, ASEAN state members have FTA with some

**Table 3** : *FPAs in ASEAN*

	Agreements and Year In Effect
Brunei	• Japan-Brunei Free Trade Agreement (2008)
Indonesia	• Japan-Indonesia Economic Partnership Agreement (2008)

Malaysia	<ul style="list-style-type: none"> <li>• Japan-Malaysia Economic Partnership Agreement (2006)</li> <li>• Malaysia-Pakistan Closer Economic Partnership Agreement (2008)</li> <li>• Malaysia-India Comprehensive Economic Cooperation Agreement (2011)</li> <li>• Malaysia-New Zealand Free Trade Agreement (2010)</li> </ul>
Philippines	<ul style="list-style-type: none"> <li>• Japan-Philippines Economic Partnership Agreement (2008)</li> </ul>
Singapore	<ul style="list-style-type: none"> <li>• Japan-Singapore Economic Agreement for a New-Age Partnership (2002)</li> <li>• European Free Trade Association-Singapore Free Trade Agreement (2003)</li> <li>• India-Singapore Comprehensive Economic Cooperation Agreement (2005)</li> <li>• Korea-Singapore Free Trade Agreement (2006)</li> <li>• New Zealand-Singapore Closer Economic Partnership (2001)</li> <li>• People's Republic of China-Singapore Free Trade Agreement (2009)</li> <li>• Singapore-Jordan Free Trade Agreement (2005)</li> <li>• Singapore-Panama Free Trade Agreement (2006)</li> <li>• Singapore-Peru Free Trade Agreement (2009)</li> <li>• United States-Singapore Free Trade Agreement (2004)</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>• Japan-Thailand Economic Partnership Agreement (2007)</li> <li>• People's Republic of China-Thailand Free Trade Agreement (2003)</li> <li>• Thailand-New Zealand Closer Economic Partnership Agreement (2005)</li> <li>• Thailand-Peru Free Trade Agreement (2011)</li> <li>• Laos-Thailand Preferential Trading Arrangement (1991)</li> <li>• Thailand-Australia Free Trade Agreement (2005)</li> </ul>
Vietnam	<ul style="list-style-type: none"> <li>• Japan-Viet Nam Economic Partnership Agreement (2009)</li> </ul>
Lao PDR	<ul style="list-style-type: none"> <li>• Laos-Thailand Preferential Trading Arrangement (1991)</li> </ul>

Source: ADB

non-ASEAN state members through both the RTA and BTA. Thailand and Singapore had started the economic relationship with China through People's Republic of China-Thailand Free Trade in 2003 and People's Republic of China-Singapore Free Trade Agreement in 2009, respectively. Nevertheless, Thailand and Singapore are also under the Agreement of ASEAN and China in ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement, which was signed in 2005. This dual track FTA not only happened with the China but also with Korea, Japan, New Zealand, and India as can be seen from Table 3.

The fact that ASEAN state members conducted the dual-track FTA has raised the question in the external policy of ASEAN in choosing RTA with the trading partner. This study therefore attempts to explore the determinant for ASEAN in acting as a Region to build a Free Trade Agreement with a non-ASEAN state member when the Bilateral Trade Agreement exists. In other words, the reason why ASEAN adopts the dual-track policy in FTA would be explained. The study will focus on the case of FTA between Japan and Thailand with the assumption that that the content in RTA would not appear in the FTA, which made ASEAN acts regionally. In order to investigate this, the study will be conducted by comparing ASEAN-Japan Comprehensive Economic Partnership (AJCEP) to Japan-Thailand Economic Partnership Agreement (JTEPA) to address the difference of AJCEP from JTEPA in order to describe the dual-track trade integration. The paper will also examine the reason for ASEAN's regionally acting through studying in both the trade pressure and political pressure to ASEAN by analyzing the difference of RTA and BTA, and studying the international political pressure in Asia to address the ASEAN strategy in FTA.

This paper will be divided into four parts. The first section is the introduction of the Free Trade Agreements in form of RTA and BTA in ASEAN. This will be followed by the literature review in the second section to introduce the literature in the area of political economy viewpoint, FTA in ASEAN, and FTAs between Japan and Thailand which are AJCEP and JTEPA. The study framework and methodology will be explained the third section with the introduction of dependent and independent variables used in the study to derive the characteristic of AJCEP as a RTA of Japan and Thailand. The comparison of AJCEP and RTA will be analyzed in the fourth part, followed by the conclusion and policy recommendation in the last section.

## B. Literature Review

Many studies examine the FTA through the Regional Trade Agreements and Bilateral Trade Agreements. In reviewing the literatures, the review will be divided into two parts; the FTAs in ASEAN, and Japan and Thailand Free Trade Agreements.

Mikic (2009) analyzed the role of BTA of ASEAN member countries and the trade bloc Agreement of ASEAN. ASEAN's lack of regional coordination in building the RTA makes ASEAN state members have many overlapping BTAs. This has increased complexity of the intra-regional trade relation in ASEAN. The extra-ASEAN regionalism can be divided into two tracks; (1) the group-acting trade agreements of ASEAN and the third parties, and (2) the individual trade agreements of ASEAN state members and the third parties. The regional integration of ASEAN attracts many trading partners and regional blocks, which includes both fast growing developing countries and mature industrialized economies. ASEAN state members have been actively seeking the BTAs with other countries. Around 50-80 per cent of average trade of selected countries in ASEAN is done with the trading partners that the trade agreements exist, but less than 30 per cent of that is done with the ASEAN+3 (China, Japan and Republic of Korea). There is insufficient consultation among the member states for the regionalism. This lack of common approach towards negotiating trade agreements resulted in a noodle bowl syndrome, which brought RTA to the lower utilization of negotiated concessions. The AECB will be a step forward in consolidating these agreements because the member states have to consider the interests of ASEAN in the BTA which is a part of external economic relations.

Aoki-Okabe, Maki (2008) analyzed the Economic Partnership Agreement (EPA) between Japan and Thai to examine the relation of two countries by scrutinizing the features of EPA and reviewing the negotiations to describe the building of Japan-Thailand Economic Partnership Agreement (JTEPA). The author found that JTEPA is the apex of the Japan-Thai relation, and designed to be ready for the future integration with CLMV and other ASEAN state members. Besides, EPA contains the cooperation part which is the assistance for capacity-building in the host country and is a part of Japanese's Official Development Assistance (ODA). JTEPA as a BTA was a part of a Japan-ASEAN economic partnership

system (Maki,2008, p.7) and contains context for considering the “roll-up rules of origin between Japan and ASEAN countries to be discussed in the future negotiation”. (Maki,2008, p.6). The Japan-ASEAN Comprehensive Economic Partnership (JACEP) contains the agreement in applying “roll-up” rules of origin and enlarging trade items, but the appearance of detail of rules of origin in JTEPA made JTEPA become an arrangement for the ASEAN and Japan level. In addition, cooperation measure is used to bargain in the negotiating process. This can be seen from the negotiation on JTEPA that cooperation for human resource was used for exchanging for tariff elimination in steel products in Thailand.

### C. Framework of the Study

#### *Dependent Variable*

There is one dependent variable in this study, which is ASEAN’s decision in building the RTA with Japan, in other words, AJCEP. This RTA between Japan and ASEAN was conducted when some BTAs between Japan and ASEAN member states exist.

#### *Independent Variables*

From the view of ASEAN, there are two independent variables that may affect ASEAN to act regionally in Free Trade Agreement with Japan. These variables are (1) ASEAN’s interests in the characteristics of AJCEP that are difference from the JTEPA, both in economic and cooperation measures appearing in AJCEP, and (2) ASEAN’s external relation policy in the new transitional power in Asian, which pushes ASEAN to RTA to balance power among the powerful countries in Asia.

#### *Controlled Variables*

It is assumed that the ASEAN still have a goal in economic integration aiming at AEC by 2005 in the study.



### *Methodology and Hypothesis*

The intention of the study is to derive the determinant of the independent variables that have effect on the regional act of ASEAN in FTA with Japan. In order to analyze this, the hypothesis is assumed that the content in AJCEP, or the RTA of ASEAN and Japan, does not appear in the JTEPA, or the BTA of Japan and Thailand.

$H_0$  : the content in AJCEP (RTA)  $\neq$  the content in JETPA (BTA)

The comparative analysis between the AJCEP and JTEPA will be conducted to indicate the distinction of both agreements. The result of comparison of both agreements will be utilized to address the significance of each determinant of the regional acting of ASEAN in FTA.

#### D. Comparison of AJCEP and JTEPA

### *Principles and Objectives*

Article 2 of AJCEP addresses the principles of the AJCEP through other bilateral or regional agreements or arrangements. The Principles of AJCEP states that it will involve Japan and all ASEAN Member States focusing on liberalization, facilitation and economic cooperation. They also mention about the integration of ASEAN special treatment to newer ASEAN Member States, measures in favour of least-developed countries, addressing the sensitive sectors, and technical assistance and capacity building in the economic cooperation.

**Table 4 : Principles of AJCEP**

	AJCEP	JTEPA
Principles	(a) the AJCEP shall involve Japan and all ASEAN member States (b) the integrity, solidarity and integration of ASEAN shall be maintained in the realization of the AJCEP (c) special and differential treatment is accorded to ASEAN Member States, especially the newer ASEAN Member States, in recognition of their different levels of economic development; additional flexibility is accorded to the newer ASEAN Member States (d) recognition shall be given to the provisions of the ministerial declarations of the World Trade Organization on measures in favour of least-developed countries (e) flexibility should also be given to address the sensitive sectors in Japan and each ASEAN Member State and (f) technical assistance and capacity building are important elements of economic cooperation provided under this Agreement.	-

Source: Agreement on Comprehensive Economic Partnership among Japan and Member States of the Association of Southeast Asian Nations

AJCEP and JTEPA share the same objectives in liberalise and facilitate trade in goods and services of the Parties as stated in Article 3(a) of AJCEP and Article 1(a) of JTEPA. They also have objective in improving the investment and protection for investments. In addition to AJCEP, JTEPA contains more eight objectives which appear in Article 1(b) (c) (e) (f) (g) (h) (i) and (j). These includes the promotion of paperless trading, the facilitation of mutual recognition of the results of conformity assessment procedures for products or processes, the movement of natural persons, the protection of intellectual property, the cooperation in government procurement, the promotion of fair and free competition, the establishment of a framework for future bilateral cooperation, and the promotion of transparency.

**Table 5 : Objective of AJCEP and JTEPA**

	AJCEP	JTEPA
Objectives	<p>Article 3</p> <p>The objectives of this Agreement are to</p> <p>(a) progressively liberalise and facilitate trade in goods and services among the Parties:</p> <p>(b) improve investment opportunities and ensure protection for investments and investment activities in the Parties</p> <p>(c) establish a framework for the enhancement of economic cooperation among the Parties with a view to supporting ASEAN economic integration, bridging the development gap among ASEAN Member States, and enhancing trade and investment among the Parties.</p>	<p>Article 1</p> <p>(a) liberalise and facilitate trade in goods and services between the Parties</p> <p>(b) realize and promote paperless trading between the Parties</p> <p>(c) facilitate the mutual recognition of the results of conformity assessment procedures for products or processes</p> <p>(d) encourage and promote investment and ensure protection for investments and investment activities in the Parties</p> <p>(e) facilitate the movement of natural persons</p> <p>(f) ensure and enhance adequate, effective and non-discriminatory protection of intellectual property to promote trade and investment between the Parties</p> <p>(g) enhance cooperation for mutual benefit of the Parties in the field of government procurement</p> <p>(h) promote fair and free competition by proscribing anti-competitive activities and cooperate in the field thereof</p> <p>(j) promote transparency in the implementation of laws and regulations respecting matters covered by this Agreement.</p>

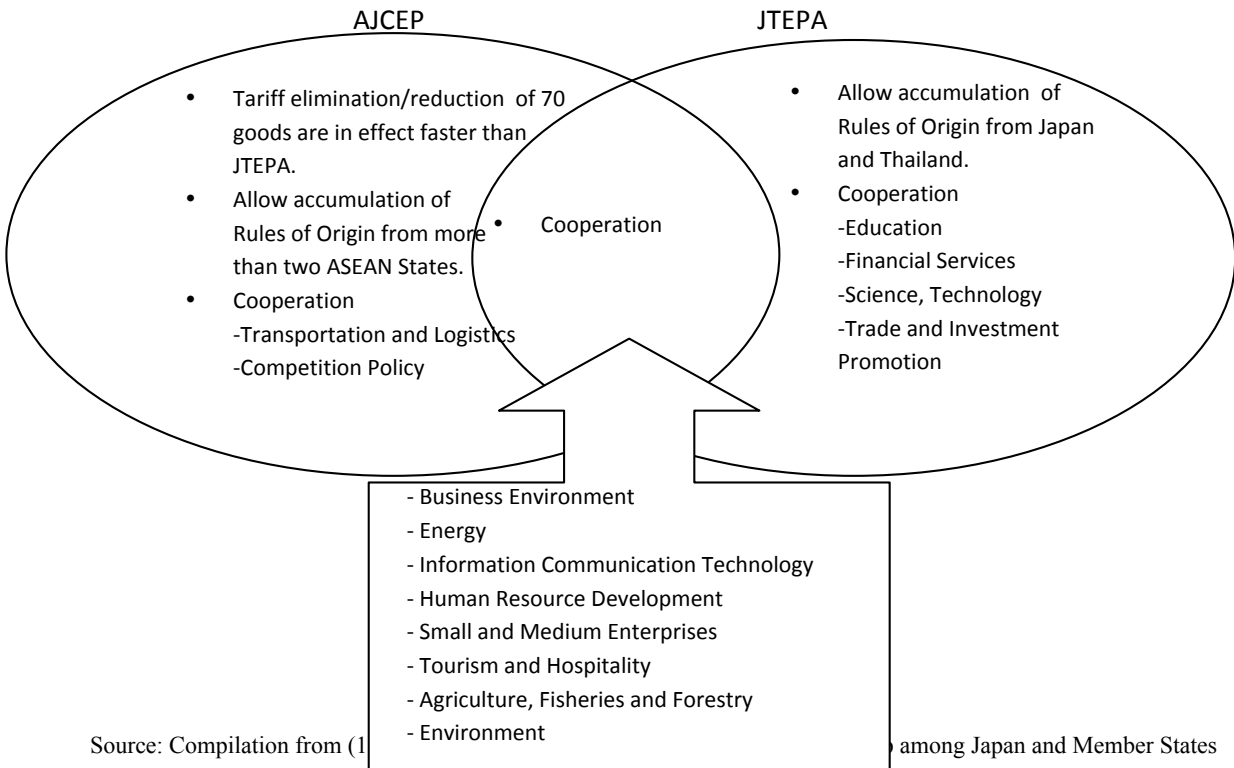
Source: (1) Agreement on Comprehensive Economic Partnership among Japan and Member States of the Association of Southeast Asian Nations, (2) Agreement between Japan and the Kingdom of Thailand for an Economic Partnership

### *AJCEP and JTEPA in broad view*

In a broad comparison, Trade in Goods in AJCEP is not greater than Trade in Goods in JTEPA (Department of Trade Negotiations, 2011). Trade in Services and Investment in Chapter 6 and Chapter 7 of AJCEP appear no disciplines, and states that the ASEAN member states and Japan will continue to discuss and negotiate provisions for services and investment, while JTEPA contains the results of negotiation in both services and investment. As for service in JTEPA, Thailand committed to allow Japan to establish business and provide services in 14 subcategories obligated under the World Trade Organization covenant, while Japan did allow Thais to establish business and provide services, and/or work to provide services in Japan in 65 subcategories (Thirawat, 2009). As for investment in JTEPA, Thailand allowed Japan to hold equity in automotive firms up to 50 per cent, while Japan agreed to

liberalize all area of investment for Thai investors except industries involved in pharmaceutical production, space and aeronautics, petroleum, energy, broadcasting, mining, fisheries, agriculture, forestry, and related basic industries (Thirawat, 2009).

Figure 1: AJCEP and JTEPA



Source: Compilation from (1) Department of Trade Negotiations, Ministry of Commerce, Thailand among Japan and Member States of the Association of Southeast Asian Nations, (2) Agreement between Japan and the Kingdom of Thailand for an Economic Partnership, and (3) Department of Trade Negotiations, Ministry of Commerce, Thailand

There are three main different characteristics of AJCEP, which are the reduction of duration of the tariff reduction/elimination in effect, the greater number of countries that can be accumulated in Rules of Origin, and the cooperation measures in transportation and logistics, and competition Policy. JTEPA is different in providing the results of negotiations in both services and investment, allowing only two countries (Japan and Thailand) in accumulating the ROO, and the cooperation measures on education, financial services, science and technology.

### *Cooperation*

From the context of AJCEP and JTEPA, although both agreements share some resemble fields of cooperation, the differences of both trade agreements appear in their type of cooperation, principles, fields of cooperation, and the implementation. The differences in their principle mainly ensure the difference between two agreements.

AJCEP's cooperation is focused more on economic area while the JTEPA provides the broad cooperation. The principle JTEPA states to facilitate and expand trade and investment, and promote quality of life for the people in Japan, ASEAN, and the Greater Mekong Subregion, and Asia. Unlike JTEPA, AJCEP acts regionally in promoting the well-being only in ASEAN and Japan, but in addition, its cooperation is stressed more on liberalization which is limited to Japan and ASEAN.

**Table 6\_ :** Cooperation in AJCEP and JTEPA

	AJCEP	JTEPA
Type of Cooperation	Economic cooperation	Cooperation
Basic Principles	Liberalise and facilitate trade and investment among the Parties, taking into account the different levels of economic development among ASEAN Member States.	Facilitate and expand trade and investment, enhance tourism between the Parties and promote sustainable development and enhancement of better quality of life for the peoples of the Parties.
Fields of Cooperation	(a) trade-related procedures (b) business environment (c) intellectual property (d) energy (e) information and communications technology (f) human resource development (g) small and medium enterprises (h) tourism and hospitality	(a) agriculture, forestry and fisheries (b) education and human resource development (c) enhancement of business environment (d) financial services (e) information and communication technology (f) science, technology, energy and environment (g) small and medium enterprises (h) tourism (i) trade and investment promotion

	(i) transportation and logistics (j) agriculture, fisheries and forestry (k) environment (l) competition policy (m) other fields as may be mutually agreed upon among the Parties	(j) other fields of cooperation as may be agreed upon
Implementation of Cooperation	Activities shall involve Japan and at least two ASEAN Member States, It may also involve Japan and one ASEAN Member State providing the aim of narrowing the gaps of economic development among ASEAN Member States or promote the well-being of the people in ASEAN towards further integration of ASEAN.	Cooperation shall be conducted in accordance with the laws and regulations of each Party. The costs of cooperation shall be shared by the Parties.

Source: Compilation from (1) Agreement on Comprehensive Economic Partnership among Japan and Member States of the Association of Southeast Asian Nations, and (2) Agreement between Japan and the Kingdom of Thailand for an Economic Partnership

The principle of AJCEP is “to liberalise and facilitate trade and investment among the Parties and to promote the well-being of people in the Japan and ASEAN member states...and to promote regional and sub-regional development through economic cooperation activities...” while JTEPA states its principle in “to facilitate and expand trade and investment, enhance tourism between the Parties and promote sustainable development and enhancement of better quality of life for the peoples of the Parties, the Greater Mekong Subregion and Asia as a whole.... and to produce positive effects on the economic and social development of the emerging markets markets in the region”

Besides, although both agreements have the cooperation in the fields of (1) agriculture, forestry and fisheries, (2) human resource development, (3) enhancement of business environment, (4) information and communication technology, and (5) small and medium enterprises. However, AJCEP has the additional fields of (1) trade-related procedures, (2) transportation and logistics, and (3) competition policy, while JTEPA has more fields of (1) education, (2) financial services, (3) science and technology, and (4) trade and investment promotion.

Lastly, the cooperation cost in JTEPA will be shared by Japan and Thailand, while that in AJCEP states that the cooperation activities may involve (1) Japan and at least two ASEAN member states, and (2) Japan and one ASEAN member state. The latter case can be done when the activities help narrow the

gaps of economic development or promoting well-being of people in ASEAN for the further integration in ASEAN.

#### E. Determinant of AJCEP

##### *Economic and Cooperation Measures*

Not only Japan employs a multi-layer policy approach in building the FTAs with some ASEAN Member States, but it also design both AJCEP and JTEPA as a dual-function Agreements by acting both as economic policy tool and diplomatic policy tool. This has distinguished AJCEP from other FTAs and resulted in attracting ASEAN Member States to agree in building the regional trade agreement with Japan, given the existence of FTAs between Japan and ASEAN Member States.

For the economic reason, the attractiveness of AJCEP is that, firstly, AJCEP allows the Parties to utilize the benefit from regional economic integration in ASEAN, which results in improving the exports of ASEAN to Japan through lower production cost from flexibility in accumulating ROO. This allows ASEAN Member States to accumulate the ROO from more countries, while the JTEPA allows only two countries (the Parties in Agreement). This is because AJCEP allows ASEAN member states to accumulate the local content that has the ROO from other ASEAN countries into the local content of exporting country to Japan. This results in the flexible production, and lower cost of production than the JTEPA, which allows accumulating of the local content from merely Japan and Thailand.

Secondly, AJCEP offers the economic cooperation as appeared in the Chapter 8 of Agreement on Comprehensive Economic Partnership among Japan and Member States of the Association of Southeast Asian Nations. The intention of the cooperation is to liberalize and facilitate trade and investment regionally of ASEAN, which includes the fields of trade, business environment, intellectual property, energy, information and communications technology, human resource development, small and medium

enterprises, tourism and hospitality, transportation and logistics, agriculture, fisheries and forestry, environment, competition policy, and other fields as may be mutually agreed upon among the parties.

The design of economic and cooperation measures in AJCEP are consistent with the plan of regional economic integration of ASEAN or ASEAN Economic Community (AEC), which is an economic goal of ASEAN by 2015. The cooperation measures in AJCEP which are different from JTEPA appearing in transportation and logistics, and competition policy, which are the key areas of ASEAN in preparing for AEC in the near future. However, the economic cooperation work programs, as indicated in Annex 5 of AJCEP, are still limited to the Intellectual Property, and Agriculture Fisheries and Forestry. In contrast, JTEPA contains more work programs in education, financial services, science and technology, trade and investment promotion. The work programs for all the nine fields of cooperation have been addressed in the Implementing Agreement in JTEPA. Unlike conventional Official Development Aid (ODA), cooperation measures in JTEPA can be used as a complementary tool for trade liberalization, a bargaining chip in negotiations in sensitive sectors by offering cooperation measures to derive concession, and a chance for new cooperation through trade and investment (Maki, 2008). Some of cooperation fields in JTEPA are the sensitive sectors that are not ready for liberalization such as the financial services. JTEPA is therefore a more efficient way of Japanese ODA compared to AJCEP and a way to prepare sensitive sector for the further liberalization.

#### *External Relation*

The international political consideration is another determinant in building RTA. For the case of ASEAN-Japan RTA or AJCEP, the foreign relation strategy of ASEAN could have affect on this. Firstly, ASEAN considered Japan as an important trading partner. Although the first RTA started by constructing ASEAN-China Free Trade Agreements (ACFTA) in 2005, followed by ASEAN-Korea Comprehensive Economic Cooperation Agreement in 2007, ASEAN-Japan Comprehensive Economic Partnership initiated in 2008 after the other RTAs with the East Asian Countries. However, a current Japan's policy



on Comprehensive Economic Partnership sets the target in achieving the strong economy and deepen economic relationships with Asian. Japanese policy on Comprehensive Economic Partnerships states that Japan will play a leading role in actively promoting bilateral Economic Partnership Agreements (EPAs) within the Asia-Pacific region and broader regional economic partnerships (Ministerial Committee on Comprehensive Economic Partnerships, 2010). The combination of economic and political measures of EPAs make Japan not become only trading partner, but the development aid provider at the same time. Another factor pushing ASEAN for RTA with Japan may be caused by the strategy in balance the power with other countries in Asia.

#### F. Conclusion

In the proliferation of Free Trade Agreements, Japan and ASEAN Member States run dual-track FTAs through forming both a Country-Regional Trade Agreement and a Bilateral Trade Agreement. Japan and Thailand also follow the same steps by pursuing Japan-Thailand Economic Partnership Agreements (JTEPA) and Asian-Japan Cooperation Economic Partnership (AJCEP). Through comparing AJCEP to JTEPA, it is found that AJCEP has an additional content of (1) Cooperation in the fields of the trade-related procedures, transportation and logistics, and competition policy, and (2) the Rules of Origin, where as JTEPA has cooperation differences in the areas of education, financial services, and science and technology, and trade and investment promotion. This supports the hypothesis that RTA or AJCEP includes the different content from BTA or JTEPA. It can therefore conclude that the dual-track FTA in ASEAN causing by these additional contents in RTA or AJCEP, in other words, the determinant of ASEAN for regional acting in FTA is the cooperation in the Japan and ASEAN member states towards the future economic integration in ASEAN or Asian Economic Community and the external relation strategy of ASEAN. The cooperation in JTEPA is viewed as a more efficient way of providing Official Development Aid than AJCEP, and a result of failure in negotiation as it is the sensitive area of another

Party. AJCEP and JTEPA reflect the Japanese's fast approach in deepening the ASEAN Member States by a diplomatic tool and a trade policy tool in one agreement.

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