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New Issues in FTAs: The Case of Economic Partnership Agreements between Japan

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I. Introduction

On January 13, 2002, the Governments of Japan and Singapore signed Agreement between the Republic of Singapore and Japan for a New Age Economic Partnership (abbreviated as the JSEPA). It was the first free trade agreement (FTA) binding Japan. Until the end of the 1990s, Japan had been reluctant toward regional trade agreements (RTAs). In 1998, however, it embarked on its first FTA with Singapore. Though Japan still adheres to multilateral trade liberalization momentum under the World Trade Organization (WTO) regime, the JSEPA marked an obvious “historical turn” in Japanese international trade policy.¹ Encouraged by this, the Japanese Government launched a search for new FTAs with other countries. In the early quarter of 2004, Japan is to start inter-governmental negotiations with Malaysia, the Philippines, and Thailand,² which are the major figures among the Association of Southeast Asian Nations (ASEAN).

Here, one thing remains unclear, however. The trade agreements that Japan and the three ASEAN countries pursue are officially called “economic partnership agreements (EPAs),” not “FTAs.” As discussed later, EPAs and FTAs are substantially the same thing. Why, then, do the Governments of Japan and ASEAN countries deliberately use such an unfamiliar term? Is it just a matter of terminology, or is there a broader vision that goes beyond what “FTAs” can draw? If so, what are Japan and its counterparts aiming for?

This paper tries to clarify why Japan and ASEAN countries choose an EPA; an FTA with “new issues,” as a tool to enhance their economic relations. In Chapter II, we figure out a conceptual outline of an EPA. Though the word “EPA” itself is a proper noun invented for the JSEPA, we can abstract some characteristics that can also be observed in other regional or bilateral FTAs. In Chapter III, we trace the aims of the JSEPA, which is the first and only EPA materialized in Asia as of December 2003. Then, Chapter IV

* This paper is based on information attained from many interviews the author conducted in late 2003. Endnoting for quotations from the interviews and addresses of thanks are omitted as some interviewees hoped to remain unidentified. Nevertheless, the author would like to note her sincere appreciation for the kind cooperation of all those interviewed, as well as special thanks to Fumio Nagai, Yurika Suzuki, Kaoru Shiraishi, Atsuke Kawada, Isamu Wakamatsu, Satoshi Kubota and Atsuo Kuroda for kindly supporting interviews.

¹ See Ogita (2003: 21), or Shigeoka (2002: 229), for example.

² *Nihon Keizai Shimbun*, November 23, 2003

examines how the original concept of an EPA that was embodied in the JSEPA is applied to its successors. Here we focus on the cases of the Japan–ASEAN Comprehensive Economic Partnership (JACEP or AJCEP), the Japan–Philippines Economic Partnership Agreement (JPEPA), and the Japan–Thailand Economic Partnership Agreement (JTEPA). These ongoing EPAs provide interesting opportunities to scrutinize the reasons the governments introduce EPA-type trade agreements. After studying those cases, we summarize the findings of this paper in Chapter V.

II. What is an EPA?: A Conceptual Definition

An apparent trend in the recent surge of FTAs or RTAs is the emergence of FTAs that cover issues that go beyond the traditional FTA concept (Okamoto 2003: 7). For example, the North American Free Trade Agreement (NAFTA), which went into force in 1994, includes areas like investment, competition, and migration. There are other FTAs of the same kind, like the United States (U.S.)–Jordan FTA, the European Union (EU)–Mexico FTA, and so on. Such issues are often called “WTO Plus issues” or “new issues,” for they were outside WTO rules.

The issues included in new FTAs are categorized as below, according to their relations with the WTO regime:

- (A) Traditional FTA issues: liberalization of trade in goods, and in services
- (B) “New issues” or “WTO plus” issues
 - 1. Singapore issues: rule-making for investment, competition, government procurement, and trade facilitation measures
 - 2. Other issues: cooperation on science and technology (S&T), human resource development (HRD), small and medium enterprises (SMEs), the environment, etc.

Issues of trade in goods and services have been discussed under the WTO regime for a long time, and rules for them had been institutionalized by the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade in Services (GATS), to some extent. In

this sense, trade liberalization, both in goods and services, can be regarded as a “traditional” issue for the WTO regime.

On the contrary, the rules for “new issues” are still young and ambiguous. There is no unified rule for issues of (B) for the present. Moreover, it is still controversial whether those issues should be covered by the WTO negotiations. In the WTO Ministerial Conference in Singapore in 1996, developed countries, like Japan and the EU, advocated establishing rules for investment, competition policy, government procurement, and trade facilitation measures (such issues are usually called “Singapore Issues”). Japan, together with the EU, has played an active role in the discussion in the WTO Working Group on the Relationship between Trade and Investment, insisting that investment is expected to have a considerable effect on trade expansion. On the other hand, developing countries have reacted sharply to rule-making for Singapore Issues, for fear of expansion of the WTO restriction on their policy options. Meanwhile, as we saw at the outset of this chapter, actually many FTAs arise that include “new issues.” Recently, such issues as cooperation on S&T, HRD, SMEs, and the environment tend to be incorporated into FTAs, as well as Singapore Issues.³

As we will see later, the JSEPA also includes these “new issues.” In this sense, the JSEPA is seen as an extension of aforementioned “new” FTAs, like NAFTA, the U.S.–Jordan FTA, and the EU–Mexico FTA. Recently, the JSEPA, an FTA with “new issues,” is to be applied to other trade agreements between Japan and ASEAN countries, like the JACEP, the JPEPA, and the JTEPA. Here the question raised in Chapter I is broken down into the one shown below; namely, Why, then, do “new issues” tend to be included in regional/bilateral FTAs? By studying the surge of EPAs in East Asia, the author tries to answer this question.

³ The difference between Singapore Issues ((B)-1) and other issues ((B)-2) is not necessarily clear. However, here the author eschews detailed categorization of issues of (B)-1 and (B)-2, as it is outside the considerations of this paper.

III. Germination of the EPA in East Asia: The Case of the JSEPA

III-1. Outlining the JSEPA

The JSEPA is often called a “new FTA,” because it covers not only tariff reduction or liberalization of trade in services alone but also other issues, like harmonization of custom procedures, movement of natural persons, cooperation on encouragement for SMEs, and so on. The issues included in the JSEPA are listed in Annex A. The Japanese Government listed 6,938 items for elimination of customs duties by the JSEPA. Tariff elimination on 3,087 of the 6,938 items has already been committed to at the WTO. The other 3,851 products include ones on which customs duties are effectively zero, and ones whose tariffs are to be eliminated under the WTO commitment. In total, the JSEPA expanded the portion of Japan’s import from Singapore with no customs duties from 84 per cent to 94 per cent. On the other hand, the Singapore side committed to eliminating tariffs on four items, such as beer, and the portion of items with no customs duties increased from 58.8 per cent to 100 per cent. However, its economic impact on Japanese exports to Singapore was not large, as they had enjoyed effectively zero customs duties even before the JSEPA.

As to agricultural products, the list for the tariff reduction schedule submitted by Japan listed 486 items, including 428 items on which tariffs are eliminated under the WTO commitment, and fifty eight products on which customs duties are effectively zero. In other words, the JSEPA requires a minimum level of tariff reduction to satisfy the WTO’s condition of not excluding an entire sector as a whole. Based on these facts, some academics point out that the JSEPA does not target trade liberalization itself, and they strictly distinguish the JSEPA from an orthodox FTA (Yoshino 2003: 113).⁴ Actually, most of the issues in the JSEPA could be categorized as “WTO plus” ones. Why, then, did the Governments of Japan and Singapore conclude a trade agreement that focused on “new issues”?

⁴ In his paper, Yoshino describes the JSEPA as “regionalism without a Free Trade Agreement.”

III-2. Aims of the JSEPA

III-2-(1). Aims of the Japanese Side

One question about the JSEPA is, why did countries with effectively zero tariff rates on their trade need to conclude an FTA? Even before the JSEPA was proposed by Singapore Premier Goh Chok Tong in 1999, the Japanese Government allegedly understood that an FTA with Singapore would not be a very fruitful option, in a purely economic sense. When the Japanese Ministry of International Trade and Industry (MITI)⁵ started looking for an FTA, Hidehiro Konno, the Director of the International Trade Policy Bureau (ITPB), at the center of the pro-FTA group within MITI, regarded the Republic of Korea (ROK) as the first-priority FTA partner. On his list, ASEAN was second, and Singapore was not even included (Ogita 2003: 240–241). Before Singapore's proposal, there was an approach by Mexico on an FTA. However, the negotiation process of the JSEPA proceeded to a tri-sector joint study group in March 2000, and to governmental negotiations in January 2001, leaving other FTA initiatives with Mexico and the ROK far behind.

In the background of the smooth development in the JSEPA negotiation process was the strategic intention of the members of ITPB in MITI. They did not narrowly aim to conclude the JSEPA itself but also targeted breaking through the domestic atmosphere against FTAs. One negative group against FTAs was from Japan's most sensitive sector: agriculture. They reacted sharply against further concession on the liberalization of agricultural imports on the WTO. The other was an FTA-cautious group in MITI itself. Most members of the MITI staff at that time were afraid FTAs might erode the multilateral free trade system under the WTO regime. *White Paper on International Trade* raised the possibility that FTAs could lead to a reduction of world trade (MITI 1991: 9–12), amplification of sophisticated protectionism (MITI 1996: 83–87), discriminatory treatments through such measures as substantial tightening of rules of origin (MITI 1998: 142), etc.

Considering these FTA-cautious groups, Singapore was an ideal FTA partner for the MITI's pro-FTA group. The share of agro-products in Japan's total imports from Singapore is only 1.7 per cent (as of 1999),⁶ and it was negligible enough for Japanese agricultural

⁵ In 2002, MITI reformed into METI.

⁶ See Japan-Singapore FTA Joint Study Group (2000).

representatives.⁷ Consequently, as MITI expected, resistance from the domestic sector remained relatively small. Singapore was also ideal for multilateralists within METI, precisely because the tariff rates applied on trade between Japan and Singapore were already low enough to satisfy the request of the WTO. On the other hand, the members of the ITPB in MITI set their eyes on FTA with Mexico, and especially the one with the ROK. They intended to materialize the JSEPA, to make it a precedent for them. They aimed to make the JSEPA a pilot type for getting those who adhere to a multilateral negotiation system accustomed to FTAs.

III-2-(2). Aims of the Singapore Side

What about the Singapore side, then? Why did the Singapore Government propose the JSEPA to Japan? Two reasons can be cited. One is the city state's imperative need for FTAs. Singapore is a country with scarce natural resources and a small-scale domestic economy. The Singaporean economy has consequently depended on trade in goods and services.⁸ Free trade is sort of "lifeblood of Singapore" (Tanaka et al. 2001: 26). Therefore, Singapore has been a strong adherent of the world free trade system under the WTO, and a supporter of regional trade liberalization schemes like the ASEAN Free Trade Area (AFTA), at the same time.

Since the end of the 1990s, the Singapore Government had shifted its emphasis from multilateral or regional trade liberalization efforts to bilateral ones. This shift is supposed to have been triggered by two factors. One is Singapore's limited influence in the multilateral negotiations at the WTO. Aside from its free trade-oriented economic structure, the Government of Singapore felt it lacked sufficient voice to propel trade liberalization in multilateral negotiations. It seemed easier to promote it through bilateral negotiations (Tanaka et al. 2001: 26; Rajan, Sen, and Siregar 2001: 3). The other factor is the "slowdown" of the AFTA process after the Asian Financial Crisis that occurred in 1997. Singapore was a disappointed ASEAN member country, at the other members' reluctance

⁷ See the comment by the Central Union of Agricultural Cooperatives of Japan (Ogita 2003: 243).

⁸ Singapore is the world's sixteenth largest merchandise trading nation and services exporter, and its trade-to-GDP ratio was 250 per cent in 1999 (Rajan, Sen, and Siregar 2001: 3). Meanwhile, the city state has the world's seventeenth largest amount of trade in services (JSEPA Joint Study Group 2000: 27).

toward regional economic cooperation.⁹ For those reasons, Singapore had shifted its priority to bilateral FTAs with larger economies. For Singapore, Japan appeared attractive enough as an FTA partner because of its huge domestic market. And above all, Japan was one of the few economies without an FTA in Asia, together with Hong Kong, at that time. By concluding an FTA with Japan first in Asia (and in advantageous form for Singapore), Singapore allegedly expected to be the hub of a future regional FTA network in East Asia (Rajan, Sen, and Siregar 2001: 11).

There was another reason for Singapore to conclude the JSEPA. Singapore expected the JSEPA to be a catalyst for restructuring the domestic economy. Since the Asian financial crisis, Singapore has tackled economic restructuring. Though Singapore was only mildly affected by the Crisis, it made apparent Singapore's structural problems; namely, the public sector-driven economic system, and strong dependence of information technology (IT) on multinational companies (MNCs). Some academics pointed out that Government and government-linked companies (GLCs) account for 60 per cent of Singapore's GNP, while MNCs control 80 per cent of the manufacturing sector. The restructuring aimed to shift economic initiatives from the public sector to the private sector, and at IT development by indigenous companies instead of MNCs.¹⁰ The Singapore Government embarked on privatization of state-owned companies, like Singapore Telecommunication, in 2001, and advocated a middle-and-long-term economic plan, including seed capital to foster high-tech industries, and more entrepreneurial human resources for more growth without government supervision.¹¹

It is interesting, for this paper, that the Singapore economic restructuring focuses on entrepreneurial human resource development for a base of "technopreneurship." The Singapore Government set a venture capital fund encouraging redress in the economic imbalance between GLCs/MNCs and SMEs in order to catch up with the development of

⁹ Singapore's Deputy Prime Minister Lee Hsien Loon repeatedly notes that "[t]he Asian financial crisis caused some ASEAN countries to hold back from pushing ahead with the ASEAN Free Trade Area and the ASEAN Investment Area, to give struggling domestic industries some breathing space. ASEAN members who are doing relatively better should take the lead and work to put ASEAN cooperation on track again" (*Business Times, Singapore*, December 1, 2000).

¹⁰ This policy, to encourage privatization of GLCs and development of high-technology oriented human resource development simultaneously, is sometimes called "technopreneurship" development. See, Wong (2003).

¹¹ *The Economist*, June 1, 2002.

the information technology-based world economy (Tan 2003: 31). The country emphasizes not only fostering young, excellent human resources with entrepreneurship but also introducing such personnel from overseas (Low 2003a: 215–219). It seems the urgent need for human resources with IT skill drove Singapore to introduce issues like HRD, or mutual recognition of qualification for IT engineers, and cooperation on SMEs, into the JSEPA (Low 2003b: 121).¹²

III-3. What the JSEPA Brought about

The FTA between Japan and Singapore was thus concluded as an agreement “for a New Age Economic Partnership,” including “new issues” as well as traditional FTA issues. What was imperative for Japan was the conclusion of the JSEPA itself. Singapore was chosen as Japan’s first FTA partner because it required substantially no further liberalization by Japan that might hinder conclusion. For its part, Singapore focused on “new issues” in the JSEPA as leverage for restructuring of its domestic economy. In other words, the ease of conclusion and leverage effect for domestic structural reform could not be achieved through a traditional FTA. They were what the JSEPA, the first EPA, brought about.

IV. Case Studies

IV-1. The Case of the JACEP

IV-1-(1). EPAs as a Tool for International Trade Policy

After reaching agreement on the JSEPA in January 2001, the Ministry of Economy, Trade and Industry of Japan (METI) continued a search for FTAs, raising the merits as below:

- (a) Expeditious development of new trade rules,
- (b) Means of maintaining multilateral liberalization momentum,
- (c) Accumulation of international system-building experience,
- (d) Avoiding the demerits of not forming FTAs and EPAs,
- (e) Domestic structural reform catalyst.

(METI 2001: 223-226)

¹² According to an interview by the author with a Japanese official, “new issues” of the JSEPA were introduced at the initiative of the Singapore side.

On the other hand, in *White Paper on International Trade* 2001, the EPA was described as a trade agreement that goes “beyond the limits of tariff eliminations handled by traditional FTAs to encompass new areas, such as investment, competition, digitalization of trade procedures, harmonization of e-commerce related systems, and facilitation of movement of natural persons” (METI 2001: 223). *White Paper on International Trade* 2002 defined bilateral economic cooperation measures, including the JSEPA, as a component of the WTO regime. It pointed out the importance of “utilizing this multilayered framework strategically and flexibly” (METI 2002a: 125). In this way, the EPA seems to achieve its own status as a policy tool.

When the JSEPA was finally signed in January 2002 in Singapore, Japanese Premier Koizumi officially announced the JACEP.¹³ The JACEP Expert Group meeting (abbreviated as the JACEPEG), which consisted of institutes and concerned authorities of each ASEAN country, and of Japan, was organized right after that. The JACEPEG met five times by September 2002, and submitted a report to the ASEAN Economic Ministers and the Minister of Economy, Trade and Industry of Japan meeting held in September. Then, at the Eighteenth Japan-ASEAN Forum held in April 2003, delegations from Japan and ASEAN confirmed moving forward with bilateral EPAs under this framework. The inter-ministerial committee, constituted by METI, the Ministry of Foreign Affairs (MOFA), the Ministry of Agriculture and Fishery, and the Ministry of Finance, was organized in March 2003.

The JACEP is an overarching framework in a dual sense. First, it covers a broader area than traditional FTAs do. In April 2002, there was a Roundtable Conference for the JACEP (RC-JACEP), initiated by the Cabinet Secretariat of Japan. The conference submitted a report recommending the issues below for the JACEP:

- To promote liberalization through FTAs in East Asia,
- To improve institutions for deeper economic integration, like safer and smoother systems of transportation, efficient financial markets, greater stability of exchange

¹³ The JACEP was later incorporated into the “Five Plans” for building the “East Asian Community,” announced by Koizumi in January 2003. The other four are cooperation on human resources development and education, implementation of The Japan-ASEAN Exchange Year 2003, the Initiative for Development of East Asia, and security cooperation including “trans-border” issues (MOFA 2003: Chapter 2, Section 3).

rates, and liberalization of natural person movement,

- To promote intellectual exchange, human resource development, and cooperation on the environment.

(RC-JACEP 2002, summarized by the author)

Added to the final version signed at the Japan–ASEAN Summit in October 2003, were cooperation on technology, tourism, SMEs, consumer protection measures, and food security. Even compared with the JSEPA, variety comes to its scope. Second, the JACEP spatially covers all of ASEAN. METI explains that its ultimate goal is to create a “seamless East Asian Business Zone” that allows free movement of people, goods, and money within it (METI 2002a: 125). The question asked here is, why was an EPA applied to the JACEP, departing from the specific case of the Japan–Singapore relation? And why has its scope been expanded?

IV-1-(2). Japan’s Political Motivation

Behind Japan’s initiative toward an “East Asian Business Zone” or an “East Asian Community” is China’s apparent expanding influence in the ASEAN region. China’s recent diplomatic drive toward ASEAN was nothing short of eye-opening — especially for Japan. In November 2001, the news that China will start an FTA with all of ASEAN within ten years astonished neighboring countries. Following that, China and Thailand decided to reduce tariffs on two hundred items, including agricultural products, ahead of the original schedule of the China–ASEAN FTA.¹⁴ In addition, China signed the Treaty of Amity and Cooperation in Southeast Asia, which is regarded as a constitution of ASEAN.

For a long time after World War II, Japan had kept engaged with ASEAN countries as “a partner that acts together and advances together.” After China’s rapid approach to ASEAN, the Japanese Government felt uneasy, thinking it can “no longer stay ignorant of the presence of China in the ASEAN region.”¹⁵ Further, the Governments of ASEAN countries seem to complain about Japan, for its slow response to FTAs or for slashing its

¹⁴ *Nihon Keizai Shimbun*, June 12, 2003. Also other ASEAN countries, except for the Philippines, are going to cut tariffs on several items after January 2004.

¹⁵ A comment made by a Japanese MOFA official (*Nihon Keizai Shimbun*, November 2, 2003).

official development assistance budget.¹⁶ Considering those situations, Japan had set out seeking a framework that would keep all of ASEAN within its reach. An imperative need arose to confirm a good-old “partnership” among Japan and ASEAN, in one way or another.

In October 2002, MOFA raised “*The Strategy for Japanese FTA Policy*.” In this document, MOFA describes EPAs as a tool for Japanese international trade policy, together with FTAs and RTAs. And it points out the geopolitical merits of building EPAs in East Asia, saying an EPA “can enhance political partnership and mutual trust among concerning bodies, which creates an awareness of unity in a geopolitical and strategic sense,” because economic interdependence and political mutual trust are complementary to each other (MOFA 2002). Referring to the case of the EU, MOFA points out an EPA/FTA’s aspect as a stabilizer for political relations with a neighboring region.

MOFA depicts the vision of an EPA that Japan pursues as summarized below:

- (a) An EPA/FTA with comprehensive issue coverage and flexible operation,
- (b) An EPA/FTA that accommodates countries that lack sufficient preparation for liberalization,
- (c) An EPA/FTA as assistance to developing nations.

(MOFA 2002, summarized by the author)

The most striking feature of MOFA’s EPA/FTA strategy is that they intend to utilize an EPA as a new form of assistance to developing countries. MOFA stresses the importance of supporting developing countries through measures like industry-upgrading cooperation or trade-related capacity-building, so that they can bear the impact of forthcoming trade liberalization. Here can be observed consideration for the latecomers to ASEAN, like Cambodia, Laos, Myanmar, and Vietnam (usually abbreviated as CLMV countries).¹⁷ When MOFA and other Japanese authorities considered the geopolitical need to strengthen the relationship with all of ASEAN, an EPA thus arose as the most suitable measure for Japan, for its flexibility. MOFA mentions, “As to the scope and level of liberalization, we

¹⁶ A government official of Thailand, concerning the FTA with Japan, stated flatly that Japan–ASEAN relations had come to a diverging point (*Nihon Keizai Shimbun*, December 4, 2003).

¹⁷ MOFA’s consideration of CLMV can be seen in MOFA (2002: Chapter 5).

should maintain flexibility according to the actual trade condition with a concerning party (especially the proportion of agricultural products among its exports to Japan) and its conditions of development (e.g. countries requiring development aid rather than liberalization).” As to issue coverage, MOFA will explore the possibility of taking a “Singapore-plus” or “Singapore-minus” approach. MOFA concluded, in the document, that there may be an option to take other approach in some situations.¹⁸

IV-1-(3). Economic Motivation

Though METI was fully aware of the importance of ASEAN as its trade agreement partner even before the JSEPA, enhancement of economic interdependence between Japan and ASEAN was accelerated by the FTA drive toward ASEAN by countries like India, Australia, New Zealand, and the U.S., and especially by China. *White Paper* 2002 mentioned the potential trade conversion effect that could result if Japan were left outside of the FTAs web in the neighboring area (METI 2002a: 127). In 2003, METI called attention, in an urgent tone, to the “fact that other countries are already taking advantage of the rich potential of ASEAN” (METI 2003: 187).¹⁹

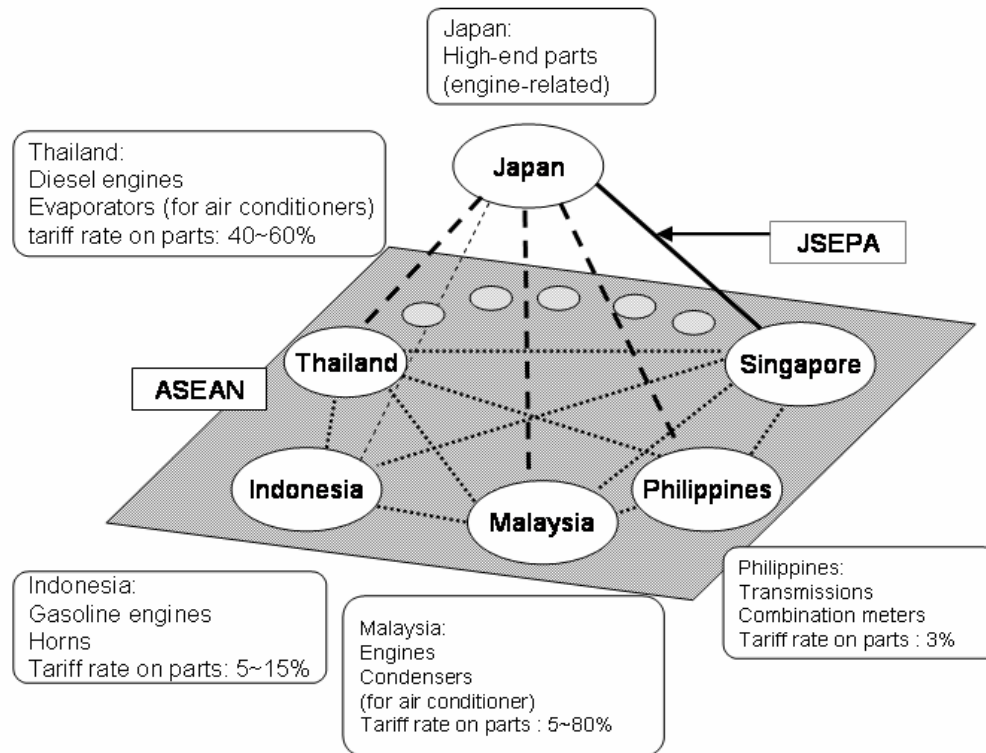
After the beginning of 2003, staff of METI tried to figure out the Japanese business sector’s condition and needs for an EPA in Asia, by organizing a group named the Study Group for East Asian Business Strategy (SGEABS).²⁰ METI focused on the Japanese manufacturing industry’s East Asian-wide international division of labor system. The SGEABS, pointing out the expansion of intermediate material trade between Japan and ASEAN economies, as shown in Figure 1, emphasizes the need to enhance an East Asian-wide optimal system for supply, production, distribution, and marketing, aiming to maximize profits (METI 2003: 186).

¹⁸ See MOFA (2002: Chapter 4).

¹⁹ Tsugami (2003) gives detailed insight on the possible impact of an ASEAN–China FTA.

²⁰ SGEABS was basically a private study group organized by Yoshihiko Washimi, a senior officer of the Minister’s Secretariat in METI. Despite its ad-hoc and private nature, recommendations by SGEABS were incorporated into the METI’s EPA policy.

FIGURE 1: METI'S EAST ASIAN-WIDE OPTIMAL SUPPLY SYSTEM

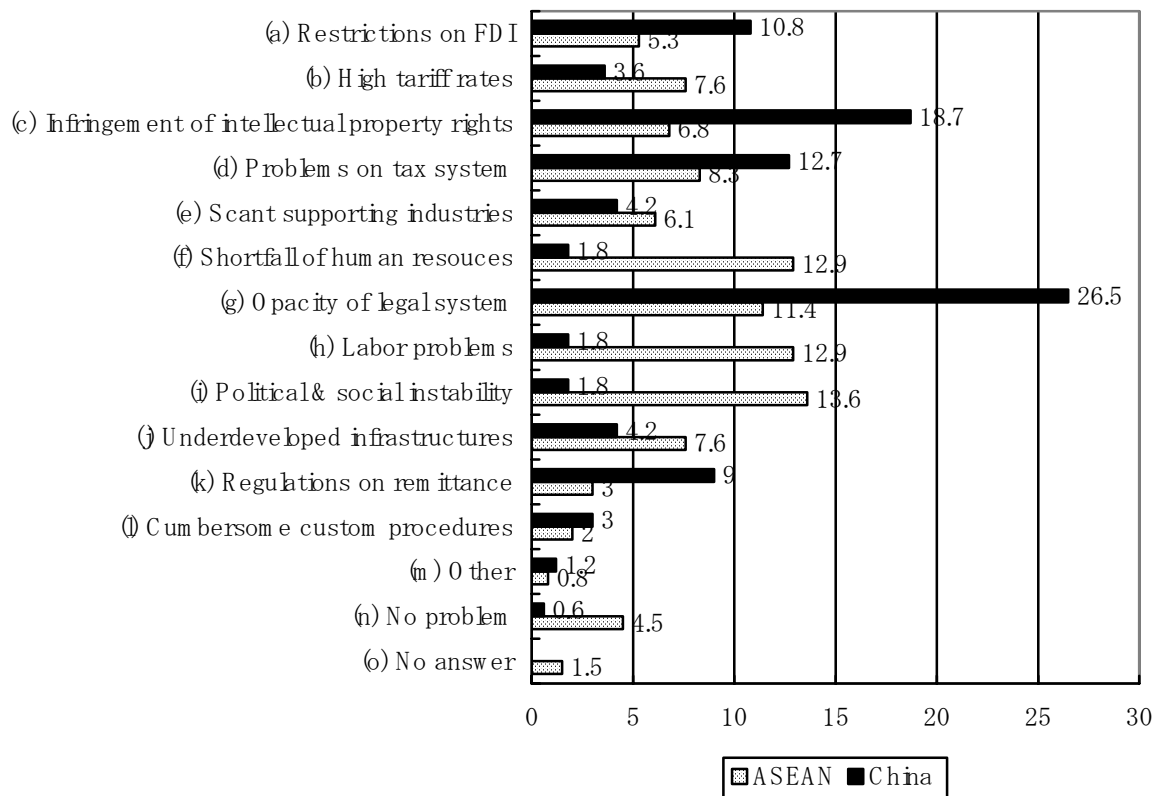


Source: METI (2003: 186).

The Report continues that this East Asian-wide optimal system requires two essential elements; namely, economic enhancement measures (liberalization of international labor movement, improvement of customs procedures, and removal of barriers for foreign investment) and tariff reduction for intermediate materials (SGEABS, 2003: 2).²¹ For Japanese manufacturers, East Asia, consisting of ASEAN and the Northeast Asian economies, is an attractive market, as well as a powerful production base and an alluring investment destination at the same time. Several problems block their way ahead, however, as shown in Figure 2.

²¹ The report is based on a questionnaire survey of Japanese private companies done in July 2003 (there were sixty valid responses from 219 companies).

FIGURE 2: PROBLEMS IN EAST ASIA FOR JAPANESE CORPORATIONS



Note: Up to three multiple answers.
 Source: SGEABS (2003).

The report shows some interesting facts. Compared with China, the enterprises answered that they feel the tariff rates in ASEAN countries are relatively high (see (b) in Figure 2). The SGEABS also pointed out Japanese manufacturers' expectations for a zero tariff measure through the AFTA.²² However, they feel much difficulty in non-tariff problems, like operation of tax systems (d), scarce human resources (f), labor problems (h), etc. Put simply, business in the ASEAN area cannot work without resolving the non-tariff problems, even if all tariff barriers are removed. Backed by those potential demands for restructuring of legal or administrative systems of ASEAN countries, METI focused on "East Asian-wide structural reform." The JACEP is propelled to promote tariff reduction within AFTA and improvement of business environments simultaneously.

²² Among sixty companies that answered a questionnaire by SGEABS, 56.7 per cent said they were interested in the AFTA for its effect to reduce their business cost, and 51.7 per cent of them expect faster implementation of zero tariff reduction through the AFTA (SGEABS 2003: 29).

IV-1-(4). The Position of “New Issues” in the JACEP

Right after the JSEPA, Japan faced an urgent need to enhance its traditional, good-old relations with ASEAN, geopolitically, as well as to deepen economic interdependence economically. In that process, the ministries of Japan focused on an EPA as their international trade policy tool. From the geopolitical viewpoint, the bottom line of an EPA was its flexibility. By adding “new issues” to their trade agreement, it becomes easier to involve the developing countries, because “new issues” has a dimension as economic aid. Cooperation on HRD or industry-upgrading is thus as important as trade liberalization. In their context, the cooperation part can be even more important than tariff elimination, in some cases. For the economic approach, by contrast, the EPA is nothing but a new “FTA” in nature, and “new issues” are important as long as trade liberalization is achieved. The JACEP was propelled by political and economic motivations that joined together, but it revealed a gap, on the position of “new issues,” between them at the same time.

As of the end of 2003, the JACEP was under preparatory consultation for official negotiations scheduled in 2005. Though details are not yet clear, there is said to be an opinion gap between Japan and ASEAN countries over agricultural liberalization (METI 2002b). Whether Japan opens its agricultural market or not will be the turning point of the EPA’s nature as a partnership-building measure or a new “FTA.” The JACEP was followed by bilateral EPA initiatives with Thailand (proposed in April 2002) and the Philippines (May 2002). In the following case studies, we examine how “new issues” are treated in those bilateral cases.

IV-2. The Case of the JPEPA

In May 2002, President Gloria Macapagal Arroyo of the Philippines proposed an FTA to Japanese Premier Koizumi, on her visit to Japan. Behind the Philippines’ FTA initiative was supposedly an aim to make the JSEPA leverage for domestic poverty reduction.²³ With a chronically high jobless rate and the lowest amount of foreign direct investment (FDI)

²³ The author was interested in a comment by a Philippine officer: “However hard and sincerely we try to promote AFTA, all the FDI go over our head about Thailand or Malaysia.... We first must keep FDI by concluding bilateral FTAs with our biggest economic partners.”

among the five countries of ASEAN (Indonesia, Malaysia, the Philippines, Singapore and Thailand), the Philippine Government hangs its hope on quantitatively expanding its trade through EPAs/FTAs with its major trading partners; namely, the U.S. and Japan.²⁴

Three months after agreement by both national leaders, an informal consultation between the parties was held, and a meeting of the Working Group (WG-JPEPA) was held in October. After five meetings by WG-JPEPA, President Arroyo and Prime Minister Koizumi agreed, in June 2003, to set up the JPEPA Joint Coordinating Team (here referred as JPEPA-JCT), consisting of tri-sectors of both Japan and the Philippines. JPEPA-JCT submitted a feasibility study report in December 2003. As of this writing, this is one of the few accessible official documents on proceeding EPAs, together with brief reports on WG-JPEPA, though it is a draft for governmental negotiations scheduled in 2004. Hereafter, based on the report by JPEPA-JCT, and WG-JPEPA, the author will try to outline the both parties' aims for an EPA.

IV-2-(1). Focal Points

The issues taken up for discussion are modeled after those of the JSEPA (JPEPA-JCT 2003: 1). When the draft was prepared for the JPEPA, it is said the Philippine Government proposed modeling it after the JSEPA, because it includes meaningful issues.²⁵ The focal points of the JPEPA are shown in Annex B.

A) Movement of Natural Persons and HRD

Expansion of human mobility is one of the Philippines' main requests for the JSEPA. This includes not only facilitation measures, like harmonization of vocational qualification among the two countries, and human capacity-building for Filipino workers, but also liberalization of the labor market in the health and medical sectors. It also targets diversifying the eligibility qualifications for Japanese working visas.²⁶ Japan seems

²⁴ According to one Philippine officer, there are three possible FTA partners for the Philippines: the U.S., Japan, and China. The China–Philippines FTA will hardly be concluded due to its competitive economy with the one of the Philippines. The U.S.–Philippines FTA is also expected to be problematic because it might evoke anti-U.S. nationalistic sentiment in the domestic society. As a result, in his opinion, the JPEPA is the only FTA with an easy forecast.

²⁵ A comment by a Philippine officer in an interview with the author. On the other hand, another interviewee told the author that the Japanese side had proposed modeling the JPEPA after the JSEPA.

²⁶ Vocational qualifications in the Philippines can be classified into two types. One is legally called *vocational qualification*, which is applied to occupations like caregivers, carpenters, and plumbers. The other is called

reluctant on this issue, however. The Japanese side of JPEPA-JCT members responded that obtaining Japanese national qualification will be the minimum requirement for working in Japan, for they regard being able to communicate in Japanese, as well as medical skills and knowledge, as indispensable. As inferred from Japan's failure to answer the Philippine's request to provide information on what kind of human resources are required in Japan, the Japanese Government supposedly remains cautious about liberalization itself.²⁷ They agreed on cooperation HRD instead. It includes assistance by Japan to Japanese language education for nurses or caregivers in the Philippines, and S&T cooperation and internships for Filipinos in Japanese private enterprises.²⁸ The Japanese side explained the reason for such HRD cooperation in the JPEPA as follows: "Liberalization of human mobility is a measure to liberalize the movement of those who are able. HRD, on the other hand, addresses the problem of how to enable people to work abroad. Linguistic education or cultural exchange is essential for such HRD" (WG-JPEPA 2003: 6).

B) Liberalization of Trade in Goods

Another request by the Philippine side is expansion of trade in goods, especially tariff reduction by Japan on agricultural items, like bananas or pineapples, or maritime products, like shrimp.²⁹ Though both parties confirmed the complementary nature of their mutual trade, Japanese delegations of JPEPA-JCT emphasized the sensitive nature of agriculture and fishery in Japan. Receiving the Philippines' request for more explanation on this matter, Japanese "representatives of agricultural and fishery sectors repeated that an EPA should not be focused narrowly on tariff reduction," and "should take a balance between tariff

specialist qualification, and it is applied to professions like medical doctors or lawyers. The Philippine Government proposed that Japan accept both types of qualifications.

²⁷ One Japanese interviewee told the author that human movement issues are considered based on the Ninth Basic Plan for Employment Measures, decided at a Cabinet meeting in August 1999. Its outline of the part for foreign employees is as follows: a) Giving higher priority to specialists for the purpose of activating the Japanese economy, b) Before accepting foreign employees, measures like improving employment situations for women and the elderly should be promoted (Ministry of Health, Labor and Welfare, Japan: 2002).

²⁸ The Philippines proposed including labor education as a solution for labor problems (WG-JPEPA 2003: 6). But this was allegedly rejected by Japan and discussed in the negotiations for issues of business environment improvement.

²⁹ As for Japanese import from the Philippines, major taxable items are bananas (10–25 per cent), pineapples (17 per cent), frozen shrimp (1 per cent), and light oil (9 yen /kg). Industrial products account for 86 per cent of the total amount, while 14 per cent is products of agriculture, forestry, or fishery (JPEPA-JCT 2003: Annex 3).

reduction and cooperation in the agriculture and fishery sectors of both sides, based on the principle of mutual benefits and coexistence” (JPEPA-JCT 2003: 4–5, underlined by the author). It is noteworthy that both sides regard the cooperation part of an EPA as compatible with liberalization of sensitive sectors.

C) Services and the FDI Environment: The Problem of the Philippines’ Structural Reform

On the other hand, the Japanese side aimed at two points. One is liberalization of the service sectors of the Philippines. In this regard, Japan demands that the Philippines achieve a higher level of liberalization than the AFTA’s. Japan urged the Philippines to promote further service liberalization, pointing out the Philippines’ reluctant liberalization commitments under the GATS.³⁰ Another point is improvement of rules for foreign investment. This includes liberalization of foreigner’s land tenure, formulation of rules for governmental expropriation and compensation, and other restrictive measures on FDI. Third is improvement of the environments for trade and investment. This ranges from issues like systematic operation of tariff reduction schemes or administrative procedures for maintaining social security or improving infrastructure.

The Philippines seems rather sluggish in embracing these issues, in general. The Philippine side repeatedly appeals that they cannot accept further service liberalization beyond the AFTA’s. As to trade in services, the Philippines gave, at a JPEPA-JCT meeting, a quite passive answer that they were entitled to flexibility as a developing country, which is allowed under the GATS (JPEPA-JCT 2003: 14). They also repeatedly appealed the difficulty of further service liberalization or deregulation of FDI under the current legal system of the Philippines (WG-JPEPA 2003: 5; JPEPA-JCT 2003: 9). For example, the Republic Constitution of 1987, which stipulates restrictions on FDI in several sectors, like communication, power industry, and development of natural resources, also prohibits foreign land tenure. The Foreign Investments Act of 1991 also provides a negative list for FDI.³¹ To pursue further liberalization, the JPEPA entails amendments to those laws. Since a constitutional amendment is quite sensitive for the country’s domestic policy, like the case

³⁰ Japanese delegations pointed out that the Philippines made only forty-two commitments under the GATS, whereas Japan made 102 (JPEPA-JCT 2003: 14).

³¹ In 2002, President Arroyo signed the fifth foreign investment negative list. This list newly adds agriculture and fishery to the exclusive sectors (IDE 2003: 317).

of the “Peace Clause” of Japan’s Constitution, the Philippine Government (especially the bureaucrats) demurs to Japan’s request on services or investments.

On the third point of Japan’s requests, the Japan Chamber of Commerce and Industries in the Philippines Inc. submitted a petition to President Arroyo, when she visited Japan in 2002, that proposed improvement in the areas of infrastructure-building, labor problems, social and political stability, and the Value Added Tax (VAT) refund system (JETRO 2003: 215). Though the Philippine side promised to establish a body to learn the demands of the private sector, further developments are expected.

IV-2-(2). The Position of “New Issues” in the JPEPA

Studying the current coordinating process of the JPEPA, two features can be pointed out. One is the selective use of “new issues,” especially a cooperation part. HRD, in general, may lead to future liberalization of human mobility, but it is not clear if “agricultural cooperation” mentioned in JPEPA discussion will lead to liberalization of Japanese agriculture. In this context, the cooperation part of an EPA is treated as compatible with liberalization of sensitive sectors. Another feature is the Philippines’ hesitation to reform its domestic structure. On the process, the Philippine side tends to avoid issues related to amending its legal system, which blocks the Philippines’ further trade liberalization, or rule-making for “new issues,” like investment or competition policy. If the JPEPA is concluded without clearing up those problems, it might evoke another traditional question: bilateral FTAs’ WTO compatibility with bilateral FTAs.

In the meantime, the JPEPA showed a way to conclude an FTA among parties with great economic disparity. By utilizing these “new issues” with an assistive nature, one can lead the other to smooth liberalization in the future. For example, Japan and the Philippines agreed to cooperate on improving the Philippines’ legal system for competition policy (JPEPA-JCT 2003: 13), and support for SMEs in the Philippines (JPEPA-JCT 2003: 19). Those measures could be leverage for boosting the economies of developing countries, and encourage them to pursue further liberalization or rule-making for “new issues.”

The Japanese Government seems fully aware of the difficulty in surmounting such problems. One official told the author that they narrow down the target to “structural reform of the Japanese economy” and conclusion of the JPEPA itself as a part of “East Asian

Community” building.³²

IV-3. The Case of the JTEPA

Thai Prime Minister Thaksin Sinawatra and Premier Koizumi of Japan agreed to seek the JTEPA in April 2002. It was followed by two preliminary consultations,³³ in which the parties confirmed to model the agreement after the JSEPA. Five meetings of the tri-sectors Working Group (WG-JTEPA) were held from September 2002 to May 2003. Based on the outcomes of the WG-JTEPA, the JTEPA Task Force (here referred as JTEPA-TF) was set up in June, and it developed details for official negotiations scheduled to start in December 2003.

The SGEABS reported the Japanese business sector’s high interest in Thailand as a second promising country after China for business deployment over the medium term (SGEABS 2003: 17). Compared with the JPEPA or the JSEPA, the JTEPA supposedly has captured public attention in Japan.

IV-3-(1). Focal Points

The issues of the JTEPA are shown in Annex C. Compared with the JPEPA, the consultation of the JTEPA seems relatively smooth for the moment. There seem to be quite few irreconcilable issues. Some of them were already addressed by legislation of domestic law (the Competition Act of 1999 in Thailand, for example) or by cooperation through other frameworks (bilateral cooperation on SMEs). Nevertheless, there remained a few focal points that require further consultation.

A) Liberalization of Trade in Goods

Thailand is the largest rice exporter in Southeast Asia, and its agricultural population is huge. It had been said that liberation of Japanese agriculture will be the most controversial part of the JTEPA negotiations. Actually, according to an interview with a Japanese official,

³² More specifically, “Japanese structural reform” in this context means to bring a “sound market mechanism” into Japanese labor market, and to break the ice of the Japanese immigration control system by introducing Phillipino workers. In Japan, some people are emphasizing this point.

³³ The first meeting was held in Tokyo in May, and the second was in Bangkok in July.

Thailand was a major figure that criticized Japanese reluctance to agricultural liberalization at the JACEP's preparatory consultation.

Contrary to the expectations of the Japanese side, however, most Thai export-oriented industries do necessarily not focus on tariff reduction itself. In Thailand, for example, the Thai Rice Exporters Association pins quite little hope on opening up the Japanese market. Because of the current small market share of exports to Japan, and the prospective cost for product management of special rice for Japan, they expect the potential benefit from Japan to remain small. Concerning processed fowl or shrimp, the interested traders emphasize non-tariff barriers, like tightening food sanitation standards or arbitrary changes of the tariff classification. This related to a decrease of shrimp and fowl exported to the EU in 2002. The EU announced, in March 2002, that it detected prohibited antibiotics in Thai shrimp and fowl. This triggered a decline of 35 per cent (compared with the previous year) in exports of these products to the EU.³⁴ Since then, the Thai Food Processors' Association has been quite cautious to avoid such barriers against Thai products. Although there seem to be voices of misgiving about such non-tariff barriers, Thai businessmen seemingly do not feel urgent need for tariff reduction for the Japanese agricultural market, at present.³⁵ As a result, to the great surprise of the Japanese side, the Thai Government expressed, in December 2003, its readiness to exclude from the agenda for trade liberalization for the time being.³⁶

³⁴ Based on an interview by the author with a staff member in the Federation of Thai Industries, on October 4, 2003.

³⁵ Compared with food processors, responses from industrial manufacturers in Thailand are not uniform. The garment industry expects the JTEPA to bring them easier access to Japanese luxury textiles or expanded investment by Japanese (*Tusho Koho* July 22, 2003: 29–30). The electrical and electronics industries also look forward to expanding their exports by harmonization of product standards between the two countries (*Tusho Koho* July, 23 2003: 13). The Thai plastic industry noted expected upgrading of their standard of technology, through Japanese cooperation on technology, or upgrading in human resource development. The automobile industry, on the other hand, is quite anxious about the possible future conversion of Japanese investment to importing similar parts from Japan. Compared with the Japanese tariff rate on automobile parts (currently 0 per cent), that of Thailand is rather higher (20–30 per cent as of 2003). Some Thai automobile manufacturers doubt there will be a positive effect of the JTEPA for the Thai economy (*Tusho Koho* July 23, 2003: 13).

³⁶ *Nihon Keizai Shimbun*, December 1, 2003. According to the negotiating official of Japan, however, this remark by Thai official meant merely that the Thai Government does not require radical liberalization of Japanese agricultural market.

B) Liberalization of Trade in Services

Japan and Thailand essentially agreed to make more commitments through the JTEPA to promote service liberalization movement under the GATS. However, there remained some gaps between the parties as to which service should be included. The Thai side enthusiastically proposed two points. One is liberalization of medical service. Specifically, Thailand wanted to expand the Japanese public medical insurance system to cover Japanese who receive medical treatment in Thailand. Another is opening of the Japanese job market for caregivers, helpers, and massagers. This was treated as an issue of “Human Mobility” in the JPEPA. The Japanese side explained the difficulty in expanding the current public medical insurance system, and insisted on the acquisition of Japanese national qualification for caregivers and massagers, as the minimum requirement for opening the labor market in the health and medical sectors.

On the other hand, Japan proposed a much broader range of services, including consumer-related service, financing, or other supporting service related to manufacturers. Thai participants answered that deregulation of FDI in the service sector is so sensitive that it might evoke strong opposition domestically. In this regard, Japan stressed that the legal framework of the JTEPA should be consistent with the WTO, citing the provision of Article V of the GATS, which requires “substantial sectoral coverage” and “the absence or elimination of substantially all discrimination.” Thailand pointed out the flexibility guaranteed by this article, as the country is a developing country (JTEPA-TF 2003: 21). Further discussion will be required on this point.

C) Cooperation on Agriculture & Fishery, HRD, S&T, and Education

One feature of the JTEPA is the variety of the cooperation part and the uniqueness of the reasons. One is cooperation on agriculture and fishery. Both Japan and Thailand seem enthusiastic about agricultural cooperation, instead of agricultural liberalization. Here also, “[t]he participants from the agricultural and fishery private sectors of Japan ... stressed that not only must an FTA be consistent with the WTO regulations but also various components, such as cooperation, should be included in the partnership,” and they also emphasized that “mutual development and prosperity of the two countries in the aspects of economy, society, and culture should be basic to the JTEPA” (JTEPA-TF 2003: 8). Both the Thai and

Japanese sides “recognized the importance of cooperation in the field of agriculture in the JTEPA, which must be undertaken in proper balance with liberalization” (JTEPA-TF 2003: 10, underlined by the author). They agreed to set up another round to discuss agricultural issues, attended by private and official representatives of both countries. There they will examine the measures for “upgrading farmer’s quality of life and standard of income” (JTEPA-TF 2003: Annex 5). Here again, cooperation issues seem to be treated as an alternative for sensitive issues, as is the case with the JPEPA.

Beyond the agricultural sector, the JTEPA includes other cooperation issues, like HRD, including educational/academic exchange (including joint research programs), mutual recognition of academic degrees, training and internships in Japan (related to IT, biotechnology, engineering, etc.), and Japanese language education in Thailand. This is allegedly related to Thailand’s aim to upgrade its domestic economy. During his visit to Japan in November 2002, Thai Prime Minister Thaksin announced his “dual-track policy,” which targeted expanding exports and FDI, and strengthening domestic economic fundamentals, simultaneously. Together with Premier Thaksin’s promotion of domestic economic policies, like establishment of the Village and Urban Revolving Fund and the Bank for SMEs, or promotion of the One Village, One Product project, FTA can be placed as a part of his measure to achieve “dual goals” (Nagai 2003: 275). At that time, the Thai Government seemed to concentrate on liberalization of trade and expanding exports brought by that. There remained a serious conflict between trade liberalization and reviving the domestic economy. Recently, as shown in the report of JTEPA-TF, the Government of Thailand became interested in “new issues.” By introducing cooperation on S&T or HRD, Thailand allegedly tries to reconcile the domestic conflict over trade liberalization.³⁷

IV-3-(2). The Position of “New Issues” in the JTEPA

In JTEPA-TF meeting, Thailand shows a positive attitude toward liberalization of trade in goods. This seems rather bold considering the strong reservation of Thai industrial

³⁷ Thai participants of JTEPA-TF also mentioned the Government’s will “to expand its potential in its efforts to promote science and technological development in this region.” At the same time, they also expressed particular interest in “enhancing technical cooperation, particularly toward neighboring countries, namely Cambodia, Laos, Myanmar, and Vietnam, for more balanced and sustainable growth of this region as a whole” (JTEPA-TF 2003: 28–29).” For Thailand, supposedly there is an aspect of assistance by a developed country for further assistance by a newly developed country. It gives us a glimpse of Thailand’s will to not only enhance the economy but also to exercise influence over the whole Indochina region through such “cooperation.” However, this point may require further study.

manufacturers. On the other hand, the Thai Government is somewhat reluctant on liberalization of trade in services, pointing out their status as a developing country. Aside from the problem of applicability of the Enabling Clause to the case of Japan–ASEAN countries’ FTAs, these facts imply the possibility of the Thai side’s underestimating the WTO rules that prohibit sectoral agreements (Nagai 2003: 276).³⁸

In fact, in the JTEPA process, some issues tend to be coordinated selectively or flexibly, as well as the JPEPA’s case. Here also, “new issues,” like agricultural cooperation, are picked up for handiness for agreement. It is important to no small extent, because by substituting tariff elimination on agricultural products for agricultural cooperation, official negotiations could be started without breaking up before that.

On the other hand, Thailand seems fully aware of the JTEPA’s effect on domestic restructuring. They are quite positive toward issues like improving business environments. They also seem to use cooperation issues to upgrade their economic potential. Thai negotiating officials showed an observable will to use them for revitalizing economies. In this sense, the JTEPA could be a case in which “new issues” are organically linked to traditional FTA issues.

V. Concluding Remarks

An EPA is expected to exert an effect that goes beyond the limits of traditional FTAs. In the case of the JSEPA, Japan concluded it aiming to make it a precedent for forthcoming Japanese FTA policy. In this sense, there was no inevitability to have an EPA, not an FTA, for Japan at that time. It was Singapore that put a premium on incorporating “new issues” in the JSEPA. It intended to upgrade its economic and technical potential by realizing issues like rule-making for investment, IT engineer exchanges through HRD, or mutual recognition of vocational qualification.

This function as “leverage for domestic economic restructuring” of the JSEPA was brought to the fore in the JACEP process. The Japanese Government intended to improve domestic institutional problems of ASEAN countries by utilizing EPAs as leverage for

³⁸ Nagai gives, in his paper, a notice that it does not mean that FTA negotiating officials in Thai government are unaware of the GATT/WTO consistency issue of FTAs. See note seventy-seven of Nagai (2003).

domestic reform. By doing this, Japan planned to optimize the division of labor system among Japan and the ASEAN region, and to deepen economic interdependence among them. On the other hand, the JACEP focused on the EPA as a tool for political partnership enhancement with ASEAN. Its point is that an EPA can involve various actors by its flexible application in compliance with the party's economic situation. This strategy regards an EPA as a partnership-building measure strategy that does not necessarily require tariff elimination on sensitive sectors. On this point, a gap was revealed between the strategies of political motivations and economic motivations based on the traditional FTA part.

This gap was revealed in the process of the JPEPA. The JPEPA substitutes "new issues" for the liberalization part. Moreover, there was observed selective focus on "new issues" that does not touch the matter of domestic institutional restructuring. Here, "new issues" were introduced to bring compromise over sensitive issues. In this sense, the JPEPA might be a case of an EPA as a partnership-confirmation measure with a haphazard package of cooperation. Meanwhile, "new issues" in the JTEPA were introduced to complement the traditional FTA part, although there seems a tendency to replace liberalization with "new issues." The JTEPA can be a case that surmounts the gap between political and economic motivations seen in the JACEP.

"New issues" can make the negotiation process easier by expanding opportunity for agreement. But at the same time, it sugarcoats the problem of the WTO-compatibility of the FTA part. There are possibilities that "new issues" might mislead EPAs into being treated in the context of development assistance, not of trade liberalization. There are merits of EPAs, on the other hand. For example, an EPA can avoid a breakdown of negotiations on trade liberalization. "New issues," like cooperation, can be used as a bargaining chip for negotiations between countries with great economic disparity. By utilizing the cooperation for SMEs or HRD, they can cultivate the countries economic potential and modify the shock brought by future liberalization. And as a result, the economy could be led to a takeoff toward a liberal trade system. Though it requires much time, it seems a realistic way when one considers the future incorporation of the developing countries, like CLMV. The flexible application of "new issues" can facilitate trade liberalization in all of East Asia, as long as trade liberalization is committed to.

Annexes

ANNEX A: ISSUES OF THE JSEPA

Category		Issues	Attitude of Singapore	Attitude of Japan	
Traditional FTA Issues	Trade in Goods	Reduction of Tariff	○	△	
		Rule of Origin	○	○	
	Trade in Services	Increasing Commitments on Market-Opening	○	○	
		National Treatment, MFN	○	○	
	Movement of Natural Persons	Investors	○	○	
Liberalization in Manufacturing		○	○		
"New Issues"	Singapore Issues	Mutual Recognition of Vocational Qualifications	○	○	
		Competition	○	○	
		Government Procurement	△	○	
		Investments	○	○	
		Intellectual Property	○	○	
		Mutual Recognition	○	○	
		Customs Procedure	○	○	
		Paperless Trading	○	○	
		Other Issues	Financial Service Cooperation	○	○
			Information and Communications Technology	○	○
	Science and Technology		○	○	
	Human Resources Development		○	○	
	Trade and Investment Promotion		○	○	
		Small and Medium Enterprises	○	○	
		Broadcasting	△	△	
	Tourism	○	△		

Note: ○=Positive Approach △=Passive Approach

Source: METI (2002).

ANNEX B: ISSUES OF THE JPEPA

Category		Issues	Attitude of the Philippines	Attitude of Japan	
Traditional FTA Issues	Liberalization of Trade in Goods	Tariff Reduction on Agricultural/ Maritime Products	○	×	
		Tariff Reduction on Industrial Products	○	○	
	Liberalization of Trade in Services	-	×	○	
	Movement of Natural Persons	Liberalization of the Labor Market in the Health and Medical Sectors	○	△	
“New Issues”	Singapore Issues	Facilitation of Application for Visas	○	△	
		Formulation of Rules for Investments	National Treatment MFN	×	○
			Extensive Prohibition on Performance Requirements	×	
			Negative List Approach for Reservation Lists	×	
			Transparency	×	
			Expropriation and Compensation	×	
			Transfers	-	
			Dispute Settlement	-	
		Intellectual Property Rights	×	△	
		Government Procurement	○	△	
	Competition	△	○		
	Paperless Trading	△	○		
	Mutual Recognition	△	○		
	Improvement of Customs Procedure	Capacity Building for a Computerized Customs System	○	○	
	Other Issues	Human Resources Development	Japanese Language Training	○	○
			Exchange of Academic Personnel	△	
			Internships in Japanese Private Companies	○	
		Financial Cooperation		△	○
		Trade and Investment Promotion	Improvement of Infrastructure	△	○
			Maintenance of Social Security		
Delayed VAT Refund					
Improvement of the Business Environment*		Transparency of Legal System Operation	△	○	
		Labor Problem (labor education)	○	○	
		Simplification of Business Procedures	△	○	
	Building an Attractive Business Environment	△	△		
Information & Communications Technology		△	△		
Small and Medium Enterprises		○	○		
Science & Technology		○	○		
Energy		△	△		
Tourism		△	△		
Broadcasting		△	△		

Note: ○= Positive approach △=Passive approach ×=Negative posture - = Not specially stated
Source: JPEPA-JCT (2003).

ANNEX C: ISSUES OF THE JTEPA

Category		Issues	Attitude of Thailand	Attitude of Japan
Traditional FTA Issues	Liberalization of Trade in Goods	Tariff Reduction on Agricultural Products	○	×
		Tariff Reduction on Industrial Products	△	○
		Harmonization of the Rule of Origin with the JSEPA	△	○
	Liberalization of Services	Deregulation of FDI in Service Sectors	△	○
		Harmonization of Medical Insurance Systems	○	×
		Liberalization of Service of the Fourth Mode of GATS (massagers, caregivers, cooks)	○	△
	Movement of Natural Persons	Improvement of the Work Permission System for Japanese Intra-corporation Transferees	-	○
		Deregulation of Work Access for Thais in Japan	○	△
		Simplification of Procedures for Work Permission in Thailand	○ ?	○
Improvement of the Training System (facilitating acceptance of trainees)		○	○ ?	
Singapore Issues	Formulation of Rules for Investments	National Treatment, MFN	△	○
		Extensive Prohibition on Performance Requirements	△	
		Access to the Court	△	
		Transparency of System Operation	○	
		Expropriation and Compensation	○	
		Transfers	△	
		Settlement for the State- Investor's Dispute	△	
	Intellectual Property Rights	○	○	
	Government Procurement	△	○	
	Competition	○	○	
	Paperless Trading	△	○	
	Mutual Recognition	○	○	
	Improvement of Customs Procedure	Capacity Building for a Computerized Customs System	△	○
Other Issues	Human Resources Development	Educational, Academic Exchange (Joint research)	○	○
		Mutual Recognition of Academic Degrees	○	
		Training and Internships in Japan (on IT, biotechnology, agriculture, engineering, etc.)	○	
		Japanese Language Education in Thailand	○	
	Financial Cooperation		○	○
	Trade and Investment Promotion	Cooperation on Trade Insurance	△	○
		"Long Stay Program" for Business Personnel		
	Improvement of Business Environments	Establishment of a Body for Business Support	△	○
		Transparency of the Thai Systems or Procedures Related to Business	○	○
		Simplification of Business Procedures		○
	Information & Communication Technology		△	△
	SMEs Cooperation	Establishment of a Joint Working Committee on SMEs	○	○
	S & T Cooperation		○	○
Agricultural & Fishery Cooperation		△	△	
Tourism		△	△	

Note: ○=Positive approach △=Passive approach ×=Negative posture - = Not specially stated

Source: JTEPA-TF (2003).

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Abstract of the Paper

On January 13, 2002, the Governments of Japan and Singapore signed The Agreement between the Republic of Singapore and Japan for a New Age Economic Partnership (abbreviated as the JSEPA). It was the first free trade agreement (FTA) binding Japan. Until the end of the 1990s, Japan had been reluctant toward regional trade agreements (RTAs). In 1998, however, it embarked on its first FTA with Singapore. Though Japan still adheres to multilateral trade liberalization momentum under the World Trade Organization (WTO) regime, the JSEPA marked an obvious "historical turn" in Japanese international trade policy. Encouraged by this, the Japanese Government launched a search for new FTAs with other countries. In the early quarter of 2004, Japan is to start inter-governmental negotiations with Malaysia, the Philippines, and Thailand, which are the major figures among the Association of Southeast Asian Nations (ASEAN).

Here, one thing remains unclear, however. The trade agreements that Japan and the three ASEAN countries pursue are officially called "economic partnership agreements (EPAs)," not "FTAs." As discussed later, EPAs and FTAs are substantially the same thing. Why, then, do the Governments of Japan and ASEAN countries deliberately use such an unfamiliar term? Is it just a matter of terminology, or is there a broader vision that goes beyond what "FTAs" can draw? If so, what are Japan and its counterparts aiming for?

In this report, the reporter tries to clarify why Japan and ASEAN countries choose an EPA; an FTA with "new issues," as a tool to enhance their economic relations. Firstly, we figure out a conceptual outline of an EPA. Though the word "EPA" itself is a proper noun invented for the JSEPA, we can abstract some characteristics that can also be observed in other regional or bilateral FTAs. Secondly, we trace the aims of the JSEPA, which is the first and only EPA materialized in Asia as of December 2003. Then, we examine how the original concept of an EPA that was embodied in the JSEPA is applied to its successors. Here we focus on the cases of the Japan ASEAN Comprehensive Economic Partnership (JACEP or AJCEP), the Japan-Philippines Economic Partnership Agreement (JPEPA), and the Japan-Thailand Economic Partnership Agreement (JTEPA). These ongoing EPAs provide interesting opportunities to scrutinize the reasons the governments introduce EPA-type trade agreements. After studying those cases, we summarize the findings from the case studies.

New Issues in FTAs

The Case of Economic Partnership Agreements between Japan and ASEAN Members

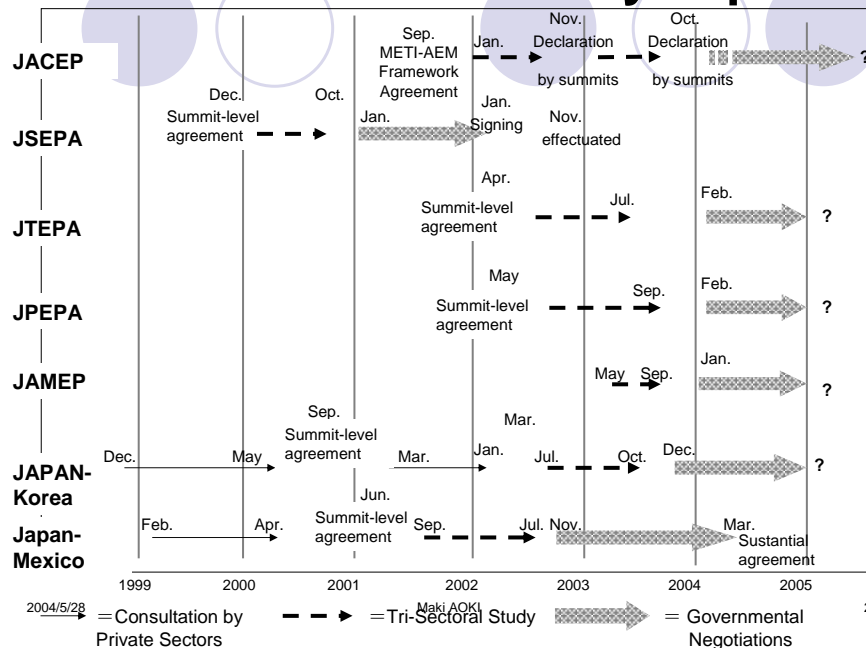
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Recent FTA Drive by Japan



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The Features of Japan's FTA in East Asia

- a. Their Comprehensive Issue Coverage
- b. Their names;

“Economic Partnership Agreements (EPAs)”

- → **Why do the FTAs initiated by Japan in East Asia have to be “EPAs?”**

What are EPAs ?

- Trade agreements that goes “beyond the limits of tariff elimination s handled by traditional FTAs to encompass new issues”
 - Investments
 - Competition
 - digitalization of trade procedures
 - harmonization of e-commerce-related systems
 - facilitation of movement of natural persons
(METI, Japan 2001: 233)

- “Traditional FTA issues” + New issues= **EPA**

Issues Included in Actual EPAs

EPA	“Traditional” FTA Issues	Liberalization of Trade in Goods
		Liberalization of Trade in Services
	New Issues	Facilitation Measures (Including expansion of human mobility)
		Economic Partnership Enhancement (Cooperation Issues) S&T, HRD, SMEs, Environment, Agriculture

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EPAs are;

**FTAs(Trade liberalization +
Facilitation measures) with
Cooperation Issues**

- **Why do FTAs in the East Asia include so many cooperation issues?**

Review of Preceding Works

- FTAs in the East Asia are designed to institutionalize existing “economic integration de facto.”
 - International division of labor (manufacturer)
 - Deployment of FDI in East Asia
- Cooperation Issues are indispensable;
 - from ***economically rational*** point of view.
 - for the ***international manufacturing system***.

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Question

- Why is regional integration in East Asia institutionalized in the form of EPA, a FTA with “cooperation issue?”

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Hypothesis



- Cooperation Issues are introduced not only by the economically rational reasons for the international manufacturing system, but also by the non-economic reasons, which related to the domestic/international political situations.

Case Studies



- Japan ASEAN Comprehensive Economic Partnership (JACEP)
- Japan-Singapore Economic Partnership Agreement (JSEPA)
- Japan-Thailand Economic Partnership Agreement (JTEPA)
- Japan-Philippines Economic Partnership Agreement (JPEPA)

The Case of JSEPA

● Focal Points

○ Its Name (“FTA” or “EPA”?)

- to avoid strong resistance against FTAs from domestic society

○ IT-related human resource development cooperation

- Leverage for IT-based entrepreneurship-encouraging policy in Singapore

○ High level rule setting for FDI

- Singapore’s expectation on its announcement effect”

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Position of new issues in JSEPA

○ Shield for liberalization part

○ Leverage for domestic economic restructuring

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The Case of JACEP:1

- **Japan's Economic motivation**
 - Simultaneous elimination of tariff/non-tariff barriers
 - Impact of other countries' FTA drive toward ASEAN
 - “Avoid potential demerits of being left outside of FTA webs in neighboring region ”
 - (METI 2002)
- Liberalization is the premise for New Issues

The Case of JACEP:2

- **Japan's Political motivation**
 - Impact of China-ASEAN FTA (2001. Nov.)
 - “enhance the ‘special partnership’ with ASEAN”
 - Focused upon the aspect of EPAs as a developmental aid for CLMV.
 - (MOFA 2002)
- Coop.issues are independent of trade liberalization

The Case of JTEPA

● Focal Points

- **Tariff elimination on Agricultural products**
 - focused on agricultural cooperation as a measure to substitute liberalization
- **Cooperation on S&T, HRD, Education**
 - as a measure to upgrade Thai domestic economical potential
 - as resource for further developmental aid for CLMV *by Thailand*

Position of New issues in JTEPA

- As a alternative (substitution) for trade liberalization in sensitive sector.
- As a leverage for domestic restructuring
- As a part of regional cooperation for development

5-4. The Case of JPEPA

- **Focal points**

- **Liberalization of Movement of caregivers&nurses**

- Cooperation on Japanese language education for Japanese national licenses

- **Tariff reduction on the Philippine agricultural products**

- agricultural cooperation proposal

- **Deregulation of FDI in some areas**

- Requires Constitutional reform of the Philippines

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New issues in JPEPA

- Selective focus on them as a alternative (substitution) for trade liberalization

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Why are cooperation issues focused?

- ① **As leverage for domestic economic restructuring**
 - e.g. JSEPA, JACEP, JTEPA,
- ② **For they give chances to compromise**
 - e.g. “substitution effect” in agricultural liberalization
- ③ **As measures to enhance political partnership**
 - e.g. JACEP, JTEPA

Conclusion;

- EPAs are designed also to;
 - confirm regional geo-political partnership
 - achieve domestic consensus easily
- Cooperation issues should be designed and manipulated as a “preparation for future trade liberalization.”

Figure 3. Problems in East Asia for Japanese Enterprises



Note : Up to three multiple answers.

Source : Study Group for East Asia Business Strategy

□ ASEAN ■ China