

Thailand and japan after the economic crisis economics essay



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The relationship between Thailand and Japan were influenced from the beginning primarily by considerations of trade, and this is still the outstanding feature. However, according to the globalisation, business relations and trade have expanded and have become increasingly intermingled with political affairs, economic cooperation, and investment.

Objective

To study and analyse the advantage and disadvantage of JTEPA to Thailand.

To evaluate whether the cooperation between Thailand and Japan under the JTEPA framework will provide and create common interests and guide to the more interdependent relations.

Hypothesis

Upon the signing of the JTEPA, it seems to be that Thailand will closely dependent on Japan, which contradicts the Thai government's expectation on JTEPA to be an effective instrument to develop the unequal practices and relations between the two nations.

Research Questions

What are the character of Thai and Japanese economic relations?

What does the Thai government look forward from JTEPA?

How does JTEPA contribute to the alteration of relations between Thailand and Japan?

Scope

This research primarily focuses on Thailand's role and its perspectives on international policy and relations with Japan after the great economic crisis in 1997, particularly the case of JTEPA. This study will look at the economic relations between Thailand and Japan and try to answer the question of whether JTEPA would contribute to the more dependent relationship between these two countries.

Conceptual Framework

In this research, Realism and Interdependence theories will be used as an international theory to answer the research questions and also to clarify the Thailand and Japan in term of economic relations.

Realism

Realism, or classical realism, is an approach of the study and practice of international relations. The core of realism is national and state survival. As Han J. Morgenthau who was the leading realist thinker of the twentieth century, was stated that “ Politic is a struggle for power over men. Power is its immediate goal and the modes of acquiring, maintaining, and demonstrating in determines the technique of political action” ()

From this theory, the key point of international policy is to protect and defend the interest of the nation in the global politics. This purpose includes high political concerns of guaranteeing state survival. Security matters, as well as the low political purposes in such areas such as the pursuit of wealth and economic growth and power. In making international policy, the governmental decision-makers evaluate each option, and selecting the one

that maximizes advantage or minimize cost associated with attaining the purpose sought.

At the present time, Thailand is negotiating FTA with several countries. These FTAs will be advantageous for Thailand in terms of greater market access in goods and services due to the reduction of trade barriers, increased investment opportunities in overseas markets and decreasing of business costs arising from the dismantling of tariffs and non-tariff barriers. JTEPA is a part of Thai foreign policy toward the Japanese government, especially the economy. The national interest is the significant part in making foreign policy of state. Thailand has achieved to maximize its national interest in any situation it faced. Nevertheless, in negotiation of JTEPA which was the economic cooperation that provided shared interest, the Thai government selected the best option that takes advantage of its national interest without interfering Japanese interests. Although, this agreement made shared interest by enhancing cooperation and reducing the obstacles on trade for Thailand and Japan, it is suspicious whether both countries are so rational in practice.

Interdependence

Nowadays the world has become interdependent in economics, in communications and in human aspirations. Interdependence in the global politics refers to situations characterised by reciprocal effects among countries or among actors in different countries. There are two different perceptions that can be adopted for analysing the costs and benefits of an interdependent relationship. The first perception focuses on the joint gains and joint losses to parties involved. The second is relative gains and

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distributional issue. It is important to remember that interdependence by no means implies equality. Such uneven relations are quite common in contemporary world politics, especially between developed and less developed countries. Interdependence may be highly asymmetrical; one actor may depend on another can often use the interdependent relationship as a source of power in bargaining over an issue perhaps to affect other issues.

Due to the geographical proximity of Thailand and Japan, it would be beneficial to develop an economic partnership between them. It will bring economic gain and prosperity to both countries. Thailand is expected that JTEPA will strengthen and improve unfair relations between Thailand and Japan. Although Thailand needs equal treatment, it realises that symmetry interdependence is barely possible. When asymmetry is common in economic interdependence, the question of how much is permissible in a relationship, it should properly be interdependence, rather than one way dependence. The politics of economic interdependence involves competition even when large net benefits can be expected from the cooperation.

Methodology

The method to be applied in the course of doing this research was mainly a documentary research. To conduct the research, content and statistic analysis were used. Content and statistic was collected from various sources to get the accurate information. They were used to study the changes of economic relations between Thailand and Japan from JTEPA. The statistic of import, investment and ODA were used as a measure to access the degree of dependency between Thailand and Japan. Although dependence will not be eliminated immediately after signing the agreement, it should continually

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decrease. This research will study the changing of economics crisis with the relations after signing of the JTEPA.

Thailand and Japan: Post War relations

Thailand and Japan relations have involved several aspects including politics, economy and culture. During the postwar period, the political relations between them were not much mentioned since there were no serious conflicts between them. Moreover, during the Cold War both countries had joined the free world under the leadership of the United States, and supported each other politically.

On the economic aspects, Thailand has imported a large amount of Japanese goods and services. Since Thailand had limited capital resources for national development, it had to import capital goods, especially machinery, transportation equipment, chemical, and other industrial materials from Japan. Difference in context of development level, types of product, and price had generated a large trade deficit between Thailand and Japan in favor of the latter, during the 1960's. (Dhiravagin, 1983)

The said trade deficit led to the anti-Japanese movement in the 1970's according to the fact of Thai people were terrified of the Japanese domination of their economy. The anti Japanese attitude did come out not only in Thailand but also in other countries in Southeast Asia, including the Philippines and Indonesia. Therefore, the Fukuda Doctrine was declared to develop the economic relations between Japan and Southeast Asian countries, including Thailand. (Sudo, 1988) However, this doctrine was likely to slightly ease the strained situation, the trade deficit between Thailand and

Japan was still about US\$ 2 billion or 15 percent of the total trade in 1979. (Akrasanee, 1983) Afterward, the Thai government demanded for an equivalent treatment on trade by asking the Japanese government to firstly open their market to the Thai products; secondly, to establish the export-oriented industries in Thailand; and thirdly, to enhance the economic cooperation through more active transfers of technology. (Thai MOFA, 2010) In the White Paper on the restructuring of the Thai-Japanese economic relations, established in June 1985, the Thai government requested a reconsideration of the engineering-service conditions on the projects funded by the Japanese government, the Oversea Economic Cooperation Fund (OECF) and Yen Loan, in order that the Thai contractors could have more chance in bidding. (Doner, 1991) However, the result of this negotiation was unsuccessful for the Thai government according to the Japanese government did not guarantee to do anything seriously.

Thailand started to industrialise its economy in 1950's. By reason of, the shortage of technology and capital, the Thai government necessitated foreign direct investment (FDI) for its Thailand development projects. (Ismail and Yussof, 2003) The Investment Promotion Act 1962 was established for FDI attraction. According to the rapid rise in the wage level in Japan, labor demanding Japanese firm actively undertook FDI in Thailand and other countries in Asian countries. (Wannitikul, 1996) As a result, the Japanese investors have been one of the most important direct investors of Thailand, particularly in the manufacturing area. Importance Japanese industries were textiles, transport equipment, chemical products, electrical appliances and automobiles. Most of the Japanese registered capital was in the form of the

joint ventures; only 17 percent of them were in the form of wholly owned Japanese firms.

However, the relationship among staff in their joint ventures did not go effortlessly. A number of Thai partners in the joint ventures complained about the unwillingness of Japanese staff in the interfering technological know-how to the Thai staff. In some companies, the high level technology was realised only among Japanese technicians and engineers. The transfer of management authority was another difficulty found in Thai-Japanese joint venture firms. The Japanese head-quarter provide a lot of Japanese staff to control the managerial positions in affiliates, which really prevented Thai staff from learning the management know-how. As a result, several local partners had not been able to create their own business even after several years of joint investment with Japanese companies. (Tho, 1991)

For Official Development Assistance (ODA), Thailand has considered Japan as one of the most significant benefactors. It had received a big amount of Japanese ODA for its national development projects through several types including grant, loan, and technical cooperation.

From 1961 to 1986, due to the five national economic and social development plans, Thailand's development strategy had focused on industrialisation programs. Therefore, Thai government had to set up sufficient infrastructure to support these programs. However, according to the budget constraint, it was required that Thai government had a loan of money from foreign sources. The total overseas loan of Thai government during 1961-1986 amounted to 15, 529 million dollars, of which 2, 851

million dollars or 18.4 percent came from Japan. (Tinakorn and Siroros, 1991) Apart from bilateral loans, Thailand had also received technical assistance and grant supporting from the Japanese government. Japan's yen loans were concentrated on infrastructure which was the foundation of industrialisation while the grants went to agricultural, educational, scientific, technological, health, and community development.

Overall, it seems that Thailand was heavily dependent on Japan during the post war era. It was clearly seen that Thailand had faced the trade deficit problems with Japan, it still imported Japanese capital and industrial goods according to the requirement for industrial development. At the same time, Japanese partners did not fulfill the Thai anticipation of technological transfer so Thai staffs must rely on Japanese technicians in operating high technology. In addition, Thailand, at the same time, still depended on both grants and loan of Japanese ODA for its domestic development projects.

Thailand-Japan Post-Cold War Relations

In the first half of 1990s, trade between Thailand and Japan continued to increase. With the high rate of economic growth of Thailand, Japan was the largest supplier of Thai imports and one of the top targets of Thai exports. Thailand imported capital and industrial products from Japan. These types of products were used for expanding industrial ability and supplying many export industries whereas Japan imported agricultural and consumer products from Thailand. Changes have taken place since the beginning of 1996 according to the economic recession. Thailand's imports from Japan had been decreasing. (National Statistical Office, 1992) The trade inequality between Thailand and Japan was becoming slighter. Nevertheless, trade <https://assignbuster.com/thailand-and-japan-after-the-economic-crisis-economics-essay/>

between two countries was increasing again during the recovery of the Thai economy. Regardless of the changing trade relations, trade deficit was still the main problem in the relations between Thailand and Japan.

Taking the investment part into consideration, Thailand was a favorite target of foreign direct investment according to its lower labor costs, reasonable infrastructure and stable society, and when Japan faced another period of yen appreciation that made the raised production costs. Japanese investors started strengthening or expanding their production bases in Thailand through the production of supporting industries, including basic industries such as steel and petrochemicals. Thailand laid the foundations for its strong investment partnership with Japan. These further strengthened economic ties between Thailand and Japan (Japan External Trade Organisation, 2010) However, Japanese investment declined during 1997 according to the unfavorable environment for foreign investment in Asia in 1997.

The technology transfer continued to be the difficulty of the Thai-Japanese joint ventures companies. On the Thai side, the lacking of technology manpower, particularly engineers and technicians, and the shortage of capability to adopt and utilize technical knowhow and production technology were the difficulties of Japanese technology transfer. (Prayoon, 1990) On the Japanese side, the Japanese style of management, characterized by intra-firm training and promotion, the seniority system, and lifetime employment always results in a slow transfer of managerial posts from Japanese to local staffs. (Japan's MOFA, 2010)

With regard to Japanese ODA, although the Thai economy smoothly and increasingly grew in the first half of the 1990s, Thailand still obtained technical assistance from Japan of which the total value amounted to 147.46 billion US dollars. In the second half of the 1990s, Thailand faces a great economic crisis in 1997. (Glassman, 2001) Then, in the midst of the economic crisis, Japan's role as a supporter was very important for Thailand because it had provided more than 12.6 billion US dollars for both the financial and technical aid apart from the 4 billion US dollars in August 1997 under the IMF's support package. (Japanese MOFA, 2010)

Thailand had also received a large amount of financial and technical support from the Japanese government to raise productivity and competitiveness in Thailand after the economic downturn in 1997. Another Japanese ODA was the New Miyazawa Initiatives which amounted to 1.9 billion US dollars for pushing the Thai economy out of the economic crisis.

All in all, since the post-Cold War, the relations between Thailand and Japan have improved in an optimistic direction. Thailand and Japan have become a good partners in the good and crucial moments; however, Thailand has went on facing the trade deficit with Japan and has still depended on Japan both in term of investment and ODA. They have been significant suppliers for each other. The foreign direct investment is essential for the Thai government to develop its economy and society. Japanese investments have completed some parts of the Thai domestic development plans. Japan was as well as an essential donor when Thailand in the economic recession. Nevertheless, the Thai government has made an attempt to develop the relations from this heavily dependence on Japan to be more interdependence.

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Thailand and JTEPA

In the last few decades, the global and regional context has become more complex, with rise of the People Republic of China and India, and the breakdown of the multilateral agreement on trade and investment under the World Trade Organisation (WTO). Many countries in the global community, including Thailand and Japan, have been using trade agreement to improve competitiveness. According to compete in the new type of global context and to retain their profits in the global market, both of Thailand and Japan had to create the strong and effectiveness economic links between the two countries, which is befitting that the agreement between them is named the Japan-Thailand Economic Partnership Agreement or JTEPA.

During 1997-2010, in Thailand, there are six governments governing the country after the economic crisis in 1997. Although, each government had its own economic policy, it is clearly that all of six governments were focused on economic cooperation with other countries, develop mutual interest and avoided conflict among them. Thailand had completed FTA (Free Trade Agreement) with several countries including China, Australia. Thailand is also developing FTA with the essential trading countries; such as U. S. A. and Japan. Being one of Thailand's primary trading partners, the Japanese government's attempt to promote with EPA with Thailand will be advantageous to Thailand.

Thailand and Japan were negotiating the Japan-Thailand Economic Partnership Agreement. This agreement did not concentrate only on trade but also other dimensions, including investment, labor, intellectual property rights and so on. It is expected that JTEPA would further widen and deepen <https://assignbuster.com/thailand-and-japan-after-the-economic-crisis-economics-essay/>

Thai-Japanese relations and jointly beneficial cooperation by foreign closer economic relations, enhancing a more favorable investment climate, and generating greater business opportunities through cooperation, liberalisation and facilitation in trade and investment between the two countries. It is also considered that JTEPA will spot a new dimension for Thailand-Japan strategic partnership. (Thai MOFA, 2010)

In order to complete economic development and industrialisation, Thailand badly requires foreign investment and technology transfer to shore up its flagging economy (The Nations online, 2000) Japan is not only an important trading partner but also a key investor and source of technology for Thailand. The Thai government understands that the comparative disadvantage if it does not build up and develop FTA with Japan. From the Thai government's point of view, concluding the free trade agreement with Japan may be one instrument to success the Thai economic development according to increasing trade value and foreign investment to Thailand. At the same time, it could also contribute to strengthen Thailand-Japan relations and improve the cooperation between the two countries. Since JTEPA will provide more opportunities for Thai goods and services to entrance into the Japanese market and technology transfer from Japan, these will support Thai industrialisation and develop Thai capability. (Sriratanaban, 2004)

From Japan's point of view, Japan had realised about its disadvantaged competition in this region as the market share would be smaller after China concluded their free trade agreement with ASEAN countries. (ASEANWEB, 2010) Consequently, Japan was looking to set up and develop economic cooperation with its Asian neighbors by offering the Japan-ASEAN Economic <https://assignbuster.com/thailand-and-japan-after-the-economic-crisis-economics-essay/>

Partnership to ASEAN members individually and multilaterally. (Singh, 2002) Japan also completed the Japan-Singapore Economic Partnership Agreement in 2002. Thailand was the second nation in Southeast Asia which Japan supposed to conclude the economic agreement after Singapore. It is considered that JTEPA will support with good conditions for Japanese investment in Thailand and provide greater access in Japanese industrial goods, especially automotive and steel industry, to Thai markets.

While Thai government considers that JTEPA will be advantageous to Thailand-Japan relations, especially in the economic dimension, according to reducing obstacles on trade and developing cooperation between them, the researcher does not believe that this agreement will be beneficial to Thailand as it is expected, because of the reason that Thailand is a less developed country with economic status. This research will study whether JTEPA would make Thailand and Japan to be more interdependent or vice versa.

The impact of JTEPA

During the negotiation of the JTEPA, there were several sensitive topics becoming a matter of public concern. According to Pasuk Phongpaichit (2007), there are two points in the negotiation of the JTEPA which indicate what is the impact of this Agreement. In addition, these key points also influence whether the JTEPA is subsequently judged an achievement or disappointment from the Thai perspective:

1. Process

2. Intellectual property

Process

The first topic focused on the process of JTEPA's negotiation. Bilateral relations in trade and investment agreement are created for share interests. (Anderson, 2008) Accordingly, it means that there is no one party able to obtain all of the profits and there is no one will bear all the loss. General speaking, in international trade agreement, the inequity of power between the two countries can conclude the distribution of the gains. (Phongpaichit, 2007) Up to this point, in the negotiation process, the skill of the individual negotiating parties is very necessary. Due to the process of negotiation is secretive and non-transparent, there always misunderstand between what the negotiators think advantageous and what the public opinion consider beneficial.

Up to this point, in Thailand, the negotiation's process was condemned for the reason of insufficient transparency. During the negotiation continued from 2004-2006, several significant information was not review visibly available for Thai public opinion. Regarding to Thai law, there was not obligation for this Agreement to be discussed to Thai parliament. It was just discussed and debated in the Legislative Assembly, where Thai legislators were given with little information of the Agreement. Moreover, they had no power to judge and vote anything on the detail of the Agreement. On the other hand, in Japan side, the information on the detail of JTEPA submitted through the Japanese parliament and provided the detail of the Agreement to the public. While there was no public controversy in Japan, there were issues left with suspicion in Thai society. These left suspicions on the Agreement reflects the best interest of Thailand, because there was no

mechanism to guarantee those interest were appropriately articulated and taken into account.

Intellectual property

According to Thai protecting intellectual property law, it is hard to get intellectual property right upon a natural organism. Moreover, under the Agreement on trade-related aspects of intellectual property right (TRIPS), each state are authorised to protect themselves by such a law. (WTO, 2010) However, by a clause in the Article 130 of the JTEPA states that “ each party shall ensure that any patent application shall not be rejected solely on the grounds that the subject matter claimed in the application is related to a naturally occurring micro-organism. () When this issue of the Agreement was disclosed to the public, this issues was questioned that why a clause on intellectual property rights appeared to give Japan with more advantages than those available in TRIPS. Up to this point, Phongpaichit also adds in this point that Thailand provided Japan more benefits of intellectual property rights than Japan’s EPA was provided by Malaysia. (2007)

In sum, given the strong and effectiveness economic links with Japan for the development of the Thai economy, it can be said that it is essential for Thai economy to conclude an agreement with Japan, especially in point of the parallel negotiation between the two countries. However, regarding to this Agreement, it seemed to be that Thailand has become more dependence with Japan. Becoming more dependence with Japan, it gives rise to fear that the weaker parties may be disadvantage in the negotiations.

Chapter 2

Literature Review

The literature and research that related to the Thailand and Japan economic relations topics had focused on several aspects, namely trade, investment and assistance. Those articles outlined the gain and loss that Thailand would obtain from the economic links between the two countries, for example, Japanese investment that helped Thai industrialisation, trade deficit problems, technology transfer difficulties, the exploitation of resource etc. Some authors recommended a resolution to the problems. After the economic crisis, the economic between the two countries were deepened in view of the fact that Japan became the key actor to help the Thai economy from the economic regression. On the other hand, the assistance of Japan in the revival period caused the dependent problems between Thailand and Japan to be more obvious. As a result, the Thai government continued to improve the economic policy which increase its national interest and decrease economic problems between two countries.

This research studies the Thai foreign policy towards Japan in the context of JTEPA, with the expectation that this agreement can be an important factor to develop economic links and decrease economic problems between them. Articles which relate to Thailand and Japan economic relations are reviewed as following:

Regarding to Japan was an important trade and investment partner since it resumed economic relations after the World War II, the Thai government focused on attention to improve Thai foreign policy to deal with Japan,

particularly economic dimension. Prapat Thepchatree, who wrote " Thai-Japanese Economic Relations", analysed the Thai-Japanese economic relations after the World War II (2007). For the trade, He outlined that the trade deficit between Thailand and Japan caused by the nature of trade of both countries was on the same scale in which Thailand exported agricultural goods to Japan while the most of Japanese exports to Thailand were capital and industrial goods. In addition, the protectionism was the important non-tariff barrier for Thai product that reasoned the trade deficit problems. For the investment, the author pointed that although Japanese investment played a critical role to develop Thai industrial, Japanese investment caused several problems such as technology transfer. For ODA, he considered that the Japanese ODA did not suit with Thailand's demand, consequently, the Thai problems were not solved by ODA. Regarding to his study, the economic relations trend between Thailand and Japan would be closer and as a result trade, investment and cooperation would be increased.

Regarding to Theerawongseri (1990), Although Japan was a key factor in the Thai economy, there were the economic problems between the two countries. It was obviously that Thailand's economic dependence rooted from the structural imbalance of this economic link. The Thai government hoped that the White Paper that proposed to redistribute the Thai-Japanese economic relationship would be proper the inequality problems. (Trinidad, 2007) Under the White Paper, both of the two countries required to restructure its economic structure in the face of the rapidly changing global economic context. Accordingly, Thailand needed to pay more attention to enhance its agro-industrial goods to be value-added commodities. Moreover,

Thailand should keep the cooperation with the Japanese public and private firm to create the mutual interest and aspiration for the peace, stability, and well-being of the relations between the two countries. (Theerawongseri, 1990)

For the investment issue, Johzen Takeuchi (1991) outlined the technology transfer between Thailand and Japan in “ Technology Transfer and Japan-Thai Relations”. Takeuchi (1991) analysed that Thailand and Japan were misleading in a technology transfer concept and process. Up to this point, Thailand realised that the technology transfer was “ a piece of baggage with a bundle of handbook manuals” (Takeuchi, 1991) while most of Japanese manufacture considered the concept of technology as meaning accumulative and dynamic process. Due to Thailand was an agricultural based country and its economic was condemned as undeveloped (Limskul, 2004), this factor was partly responsible for the lack of inadequate of various skills which was necessitated in the industrial issue. Therefore, Japan did not transfer high technology to Thailand but Thailand did not understand this point. According to the study of Takeuchi (1991), there are four main reasons that Thailand criticised in the issue of Japanese reluctance to transfer the latest technology and the research and development (R&D) sections:

1. The scale of Japanese firms was smaller than the European and American Firms, particularly in terms of employment, Therefore, Japan did not have enough beneficial effects on employment creation.

2. Japanese firms were uninterested to adopting local materials and intermediate goods, and their business activities did not advantage on national industrial sector.

3. Japanese firm did not export their products, which showed that they transferred out of date production systems that lack the potential to gain competitiveness in international market.

4. Japanese firms did not point out the complete handbook manual for operation and management.

Moreover, the author (Takeuchi, 1991) also recommended that it would be useful that both of Thailand and Japan to collect more information as well as do more case studies to enhance the sympathetic in order to reduce the perception gap.

Shiowattana (1990) also studied in the issue of technology transfer between Thailand and Japan but in other context. According to her study, the importance of introducing new of technology was not the key factor leading to successful industrialization, but the capability to learn and improve the acquired technology was much important in order to ensure healthy industrial development. Shiowattana (1990) pointed that the cause of the problem was that Thailand lacked the ability in technology reproduction. Therefore, the Thai government became more aware of the necessity to promote and strengthen the technological capabilities of industry. On Japan's side, the technology transfer was determined by the policy of Japanese MNCs. In addition, the author outlined that the Japanese joint venture had successful records in technology transfer. As Japan wish for dominating as a <https://assignbuster.com/thailand-and-japan-after-the-economic-crisis-economics-essay/>

self-contained network in the Thai economy, it realised that technological strength was a dynamic force, consequently, pressing for further growth of its economic abilities in Thailand.

Xiaodong (1994) analysed the effect of Japanese Investment in Thailand since 1986 in “ What Thailand has gained and lost from Japanese investment”. The author mentioned that Japanese Direct Investment (JDI) after 1986 was a significant event which changed the situation in the Thai economy. According to Xiaodong’s study, this study paid much attention on the issue of contributions and conflicts in the JDI’s process towards to the Thai economy. For the contribution, JDI stimulated economic growth and industrialisation in Thailand. For example, one fifth of JDI flew into the Thai manufacturing export sector, this stimulated Thai exports and