

CHAPTER 1

Review of ASEAN–Japan Economic Relations and Ongoing Initiatives: ASEAN–Japan Comprehensive Economic Partnership (AJCEP) Study

Doan Thi Thanh Ha

Economist, Economic Research Institute for ASEAN and East Asia (ERIA)

Upalat Korwatanasakul

Associate Professor, School of Social Sciences, Waseda University

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1.1 Introduction

1.1.1 Development of the ASEAN–Japan Comprehensive Economic Partnership (AJCEP)

In November, 2007, Japan and Association of Southeast Asian Nations (ASEAN) Member States (AMS) concluded a comprehensive economic partnership agreement in Manila; it was signed by all parties by 14 April 2008. The agreement – the ASEAN–Japan Comprehensive Economic Partnership (AJCEP) – entered into force between 1 December 2008 and 1 July 2010, depending on the party. The AJCEP aims to (i) strengthen ASEAN–Japan economic integration; (ii) enhance their mutual competitiveness in the world market; (iii) progressively liberalise and facilitate trade in goods and services in a transparent and liberal investment regime; (iv) explore new areas and develop appropriate measures for further cooperation and integration; and (v) facilitate the more effective economic integration of Cambodia, the Lao People’s Democratic Republic (Lao PDR), Myanmar, and Viet Nam, and bridge the development gap in ASEAN (ASEAN Secretariat, 2008).

In 2019, the parties signed the First Protocol, amending the agreement. The protocol aims to strengthen the reciprocal economic ties between Japan and AMS in wide-ranging fields by completing chapters on trade in services, movement of natural persons, and investment (ASEAN Secretariat, 2019). The protocol entered into force on 1 August 2020 amongst Japan, Lao PDR, Myanmar, Singapore, Thailand, and Viet Nam, and on 1 October 2020 for Brunei Darussalam.

1.1.2 Development of the Regional Comprehensive Economic Partnership (RCEP)

AMS leaders and six ASEAN free trade agreement (FTA) partners – Australia, China, India, Japan, Korea, and New Zealand – launched Regional Comprehensive Economic Partnership (RCEP) negotiations during the 21st ASEAN Summit and Related Summits in Phnom Penh in November 2012. The objective of the RCEP is to achieve a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement.¹ The RCEP entered into force on 1 January 2022.

1.1.3 Trade and Investment Trends between ASEAN and Japan

Total merchandise trade between ASEAN and Japan reached \$240 billion in 2021, accounting for 7% of ASEAN's total trade in goods, while total foreign direct investment (FDI) inflows from Japan to ASEAN amounted to \$12 billion in the same year, accounting for 6.7% of total FDI inflows to ASEAN.² Japan is ASEAN's fifth-largest trading partner and external source of FDI in 2021, after the United States (US), European Union (EU), and China.

The overall statistics, except for those on Cambodia and Myanmar, do not show a sharp contrast in Japan–ASEAN trade growth before and after AJCEP enforcement (Table 1.1). First, despite the relatively high average annual growth rates of trade between Japan and the Lao PDR and Viet Nam after AJCEP enforcement (24% and 17%, respectively), these trade growth rates after enforcement are lower than those before by 25%–50%. Second, Brunei Darussalam and Singapore show a drop in the growth rates of trade between them and Japan after AJCEP enforcement.

The higher trade growth after enforcement can be explained by other economic, financial, and political shocks. For instance, in 2011, Cambodia enjoyed a boom in the garment sector and, in turn, increased its export volume (Un, 2011). Myanmar opened up that same year, welcoming FDI in 2012 through a new investment law. Therefore, only considering descriptive statistics is insufficient to conclude that the AJCEP encourages more trade volume or growth between Japan and AMS.



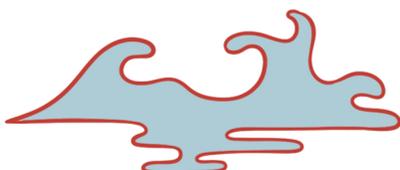
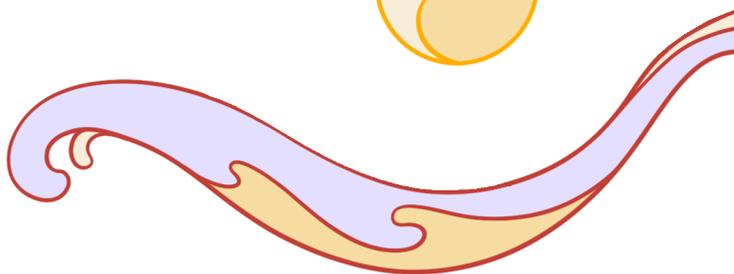
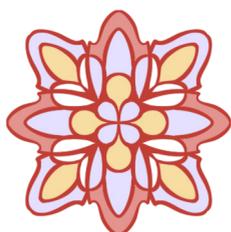
¹ ASEAN Secretariat, RCEP, <https://rcepsec.org/>

² ASEANStatsDataPortal, Indicators, <https://data.aseanstats.org/> (accessed 1 December 2022).

Table 1.1: 5-Year Average Annual Growth Rate of Trade between Japan and ASEAN Member States (%)

State	Year of AJCEP Enforcement	Before Enforcement of AJCEP	After Enforcement of AJCEP
Brunei Darussalam	2009	16	3
Cambodia	2010	8	28
Indonesia	2018	(3)	2
Lao PDR	2008	49	24
Malaysia	2009	2	3
Philippines	2009	(5)	4
Singapore	2008	12	5
Thailand	2009	4	6
Viet Nam	2008	23	17

() = negative, AJCEP = ASEAN-Japan Comprehensive Economic Partnership, ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic.
 Source: Authors, based on ASEANStatsDataPortal, Indicators, <https://data.aseanstats.org/> (accessed 1 December 2022).



1.2 Comparison of the AJCEP and RCEP Agreements

1.2.1 Overview

Table 1.2 summarises the differences between the AJCEP and RCEP agreements. Generally, the AJCEP is generally less comprehensive than the RCEP, as it lacks systematic discussions on trade remedies, e-commerce, government procurement, general provisions and exceptions, and institutional provisions. Moreover, the AJCEP specifies lighter commitments (e.g. limited to joint research, cooperation, exchange of information, or other forms of non-binding assistance) in several chapters, including customs procedures and trade facilitation (Chapter 2, Article 22), trade in services (Chapter 6), temporary movement of natural persons (Chapter 6), investment (Chapter 7), intellectual property, competition, and small and medium-sized enterprises (Chapter 8, Article 53). The First Protocol of the AJCEP did add provisions concerning trade in services, temporary movement of natural persons, and investment, potentially strengthening reciprocal economic ties between Japan and ASEAN countries.

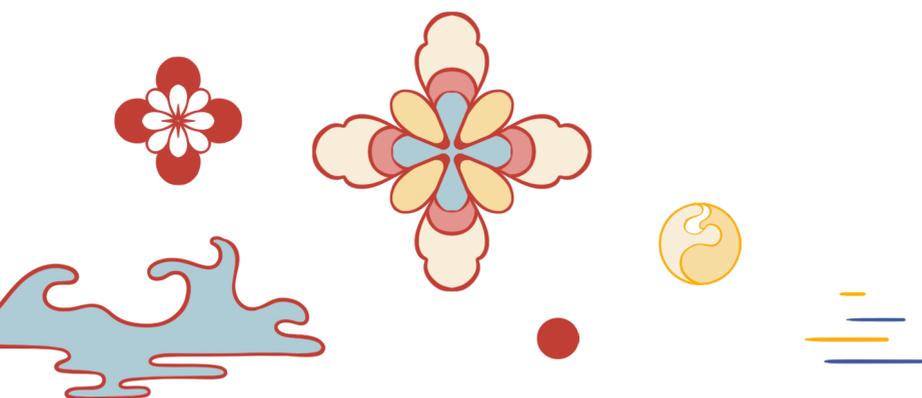


Table 1.2: Chapters of the AJCEP and RCEP Agreements

		Agreement Chapter	
Category	Topic	AJCEP	RCEP
Initial Provisions	Initial Provisions and General Definitions	Chapter 1	Chapter 1
Trade in Goods	Trade in Goods	Chapter 2	Chapter 2
	Rules of Origin	Chapter 3	Chapter 3
	Customs Procedures and Trade Facilitation	Chapter 2 Article 22*	Chapter 4
	Sanitary and Phytosanitary Measures	Chapter 4	Chapter 5
	Trade Remedies	-	Chapter 7
Trade in Services	Trade in Services	Chapter 6 ^{§*}	Chapter 8
Movement of Persons	Temporary Movement of Natural Persons	Chapter 6 ^{§*}	Chapter 9
Investment	Investment	Chapter 7 ^{§*}	Chapter 10
Business Environment	Intellectual Property	Chapter 8 Article 53*	Chapter 11
	Electronic Commerce	-	Chapter 12
	Competition	Chapter 8 Article 53*	Chapter 13
	Small and Medium Enterprises	Chapter 8 Article 53*	Chapter 14
	Economic and Technical Cooperation	Chapter 8	Chapter 15
	Government Procurement	-	Chapter 15
General Provisions and Dispute Settlement	General Provisions and Exceptions	-	Chapter 11
	Institutional Provisions	-	Chapter 18
	Dispute Settlement	Chapter 9	Chapter 19
	Final Provisions	Chapter 10	Chapter 20

AJCEP = ASEAN–Japan Comprehensive Economic Partnership, RCEP = Regional Comprehensive Economic Partnership.

[§]In 2019, the parties signed the first protocol to amend the agreement, which adds provisions concerning trade in services, movement of businesspeople, and investments.

*Liberalisation with light commitments (e.g. limited to joint research, cooperation, exchange of information, or other forms of non-binding assistance).

Source: Authors.

1.2.2 Trade in Goods

1.2.2.1 Tariff Concession Rates

Although the RCEP aims to liberalise its positive list by eliminating 86%–100% of tariffs within 20 years, the tariff concession rates of the RCEP (91% on average) are lower than those of the AJCEP (93% on average) (Table 1.3). With higher tariff concession rates, the AJCEP offers greater incentives to Japanese manufacturers to fragment their regional production value chains in the ASEAN region, as the cost efficiencies will allow Japanese products manufactured in ASEAN to compete in international markets, particularly India and the EU. Thus, the AJCEP could enhance ASEAN's role as an exporter of Japanese technology-intensive products to the rest of the world.

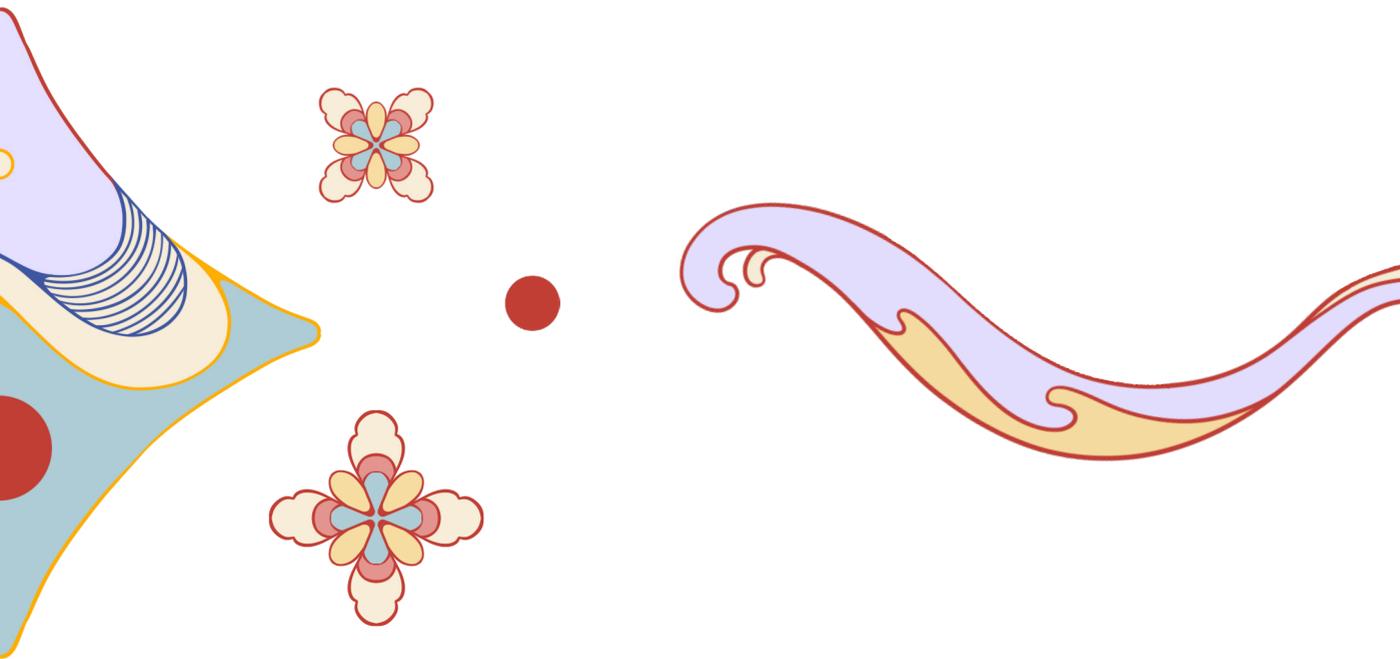
Table 1.3: Tariff Concession Rates, AJCEP and RCEP Agreements (%)

	AJCEP	RCEP
Brunei Darussalam	98	98
Cambodia	85	87
Indonesia	91	91
Lao PDR	86	86
Malaysia	94	90
Myanmar	85	86
Philippines	97	91
Singapore	100	100
Thailand	96	90
Viet Nam	94	89
Average ASEAN	93	91
Japan	92	88

AJCEP = ASEAN–Japan Comprehensive Economic Partnership, ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic, RCEP = Regional Comprehensive Economic Partnership.
Source: Authors, based on Park (2022).

1.2.2.2 Rules of Origin

The consistent application of the rules of origin (ROO) for all products under the RCEP simplifies the origin verification process and, in turn, raises the RCEP's utilisation rate. In addition to the indirect or build-down formula under the AJCEP, the RCEP includes the direct or build-up formula for regional value chain calculations, allowing a more comprehensive range of products to be applicable under the RCEP.³ Moreover, the RCEP ROO contain more minimal operations and process categories than those under the AJCEP. Lastly, adopting the diagonal cumulation scheme⁴ potentially generates positive gains due to the deepened regional value chains amongst RCEP parties – considered consolidated and upgraded ASEAN+1 FTAs – including the AJCEP. Table 1.4 summarises the detailed differences regarding the ROO of the AJCEP and RCEP agreements.



³ Direct/build-up formula:

$$\text{RVC} = (\text{VOM} + \text{Direct Labour Cost} + \text{Indirect Overhead Cost} + \text{Profit} + \text{Other Costs}) / \text{FOB} \times 100$$

Indirect/build-down formula:

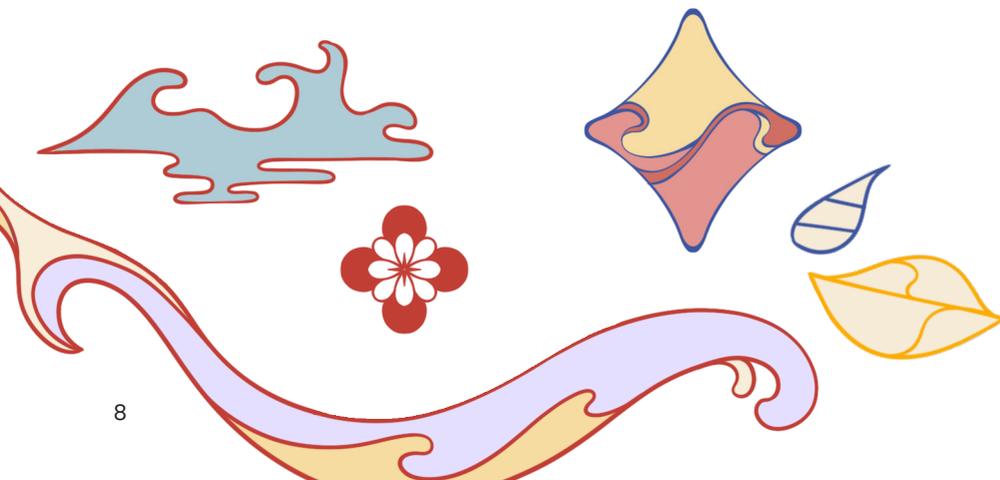
$$\text{RVC} = (\text{FOB} - \text{VNM} / \text{FOB}) \times 100$$

where FOB = value of the good, inclusive of the cost of transport to the port or site of final shipment abroad; RVC = regional value content; VNM = value of non-originating materials used in the production of the good; VOM = value of originating materials, parts, or produce acquired/self-produced and used in the production of the good.

⁴ There are three types of cumulation: (i) bilateral cumulation, where only raw materials or components in the preference-granting country can be counted; (ii) diagonal cumulation, where raw materials or components from the preference-granting country and a list of other designated countries to which the same ROO apply can be counted; and (iii) full cumulation, where raw materials from all countries to which the same ROO apply can be counted (World Customs Organization, n.d.)

Table 1.4: Rules of Origin, AJCEP and RCEP Agreements

Rule of Origin	AJCEP	RCEP
De minimis	10%; for some agricultural products, 7%	10%
Regional value contents	40% (Indirect/build-down)	40% (Indirect/build-down or direct/build-up)
Minimal operations and processes (non-qualifying operations)	Chapter 3, Article 30 7 operations and processes	Chapter 3, Article 3.6 11 operations and processes
Certificate of origin	Public	Public
Detailed components	-	-
Declaration of origin by approved exporters and declaration of origin by all exporters or producers	No	Yes
Provisions to develop an electronic system for origin information exchange	No	Yes
Full list of the product-specific rule, which covers all tariff lines at the HS 6-digit level	No	Yes



Rule of Origin	AJCEP	RCEP
Allowance of the application of chemical reaction rules for specific tariff lines in an equal manner to other rules	No	Yes
Treatment of an indirect material as an originating material without regard to where it is produced	No	Yes
Provision where a non-originating material undergoes further production that confers originating status, that material will be treated as originating when determining the originating status of the subsequently produced good	No	Yes
Allowance of a post-importation claim for preferential tariff treatment, subject to the RCEP participating countries' domestic laws and regulations	No	Yes

AJCEP = ASEAN–Japan Comprehensive Economic Partnership, HS = Harmonized System, RCEP = Regional Comprehensive Economic Partnership.

Notes: Minimal operations and processes (non-qualifying operations) are as follows:

AJCEP: (a) operations to ensure the preservation of products in good condition during transport and storage (e.g. drying, freezing, keeping in brine) and other similar operations; (b) changes of packaging and breaking up and assembly of packages; (c) disassembly; (d) placing in bottles, cases, boxes, and other simple packaging operations; (e) collection of parts and components classified as a good pursuant to Rule 2(a) of the General Rules for the Interpretation of the Harmonized System; (f) mere making-up of sets of articles; or (g) any combination of operations referred to in subparagraphs (a) through (f).

RCEP: (a) preserving operations to ensure that the goods remain in good condition for the purposes of transport or storage; (b) packaging or presenting goods for transport or sale; (c) simple processes consisting of sifting, screening, sorting, classifying, sharpening, cutting, slitting, grinding, bending, coiling, or uncoiling; (d) affixing or printing of marks, labels, logos, or other like distinguishing signs on goods or their packaging; (e) mere dilution with water or another substance that does not materially alter the characteristics of the good; (f) disassembly of products into parts; (g) slaughtering of animals; (h) simple painting and polishing operations; (i) simple peeling, stoning, or shelling; (j) simple mixing of goods, whether or not of different kinds; or (k) any combination of two or more operations referred to in subparagraphs (a) through (j).

Source: Authors, based on ASEAN Secretariat (2022), Park (2022), and ASEAN Secretariat, RCEP, <https://rcepsec.org/>.

1.2.2.3 Customs Procedures and Trade Facilitation

The RCEP provides more detailed information on customs procedures and trade facilitation than the AJCEP. Specifically, the AJCEP lacks discussion on the application of information technology (Chapter 4, Article 4.12), authorised operators (Chapter 4, Article 4.13), express consignments (Chapter 4, Article 4.15), and customs cooperation (Chapter 4, Article 4.19), implying slower customs procedures in the AJCEP (Table 1.5).

**Table 1.5:
Customs Procedures and Trade Facilitation, AJCEP and RCEP Agreements**

	AJCEP	RCEP
Customs Procedures		
Consistency	Chapter 2, Article 22	Chapter 4, Article 4.4
Transparency	Chapter 2, Article 22	Chapter 4, Article 4.5
Enquiry Points	No	Chapter 4, Article 4.6
Customs Procedures	No	Chapter 4, Article 4.7
Pre-shipment Inspection	No	Chapter 4, Article 4.8
Pre-Arrival Processing	No	Chapter 4, Article 4.9
Advance Rulings	No	Chapter 4, Article 4.10
Release of Goods	No	Chapter 4, Article 4.11
Application of Information Technology	No	Chapter 4, Article 4.12
Risk Management	No	Chapter 4, Article 4.14
Express Consignments	No	Chapter 4, Article 4.15
Post-Clearance Audit	No	Chapter 4, Article 4.16

	AJCEP	RCEP
Time-Release Studies	No	Chapter 4, Article 4.17
Review and Appeal	No	Chapter 4, Article 4.18
Consultations and Contact Points	No	Chapter 4, Article 4.20
Implementation Arrangement	No	Chapter 4, Article 4.21

AJCEP	RCEP
Trade Facilitation	
Chapter 2, Article 22 (a) simplify its customs procedures	Chapter 4, Article 4.13 Measures for authorised operators: (a) low documentary and data requirements, as appropriate; (b) low rate of physical inspections and examinations, as appropriate; (c) rapid release time, as appropriate; (d) deferred payment of duties, taxes, fees, and charges; (e) use of comprehensive guarantees or reduced guarantees; (f) a single customs declaration for all imports or exports in a given period; and (g) clearance of goods at the premises of the authorised operator or another place authorised by a customs authority.
Chapter 2, Article 22 (b) harmonise its customs procedures, to the extent possible, with relevant international standards and recommended practices such as those made under the auspices of the Customs Co-operation Council.	Chapter 4, Article 4.13 (a) exchanging information on such schemes and on initiatives to introduce new schemes; (b) sharing perspectives on business views and experiences, and best practices in business outreach; (c) sharing information on approaches to mutual recognition of such schemes; and (d) considering ways to enhance the benefits of such schemes to promote trade, and, in the first instance, to designate customs officers as coordinators for authorised operators to resolve customs issues.

AJCEP	RCEP
Trade Facilitation	
	<p>Chapter 4, Article 4.19</p> <ul style="list-style-type: none"> (a) the implementation and operation of this chapter; (b) developing and implementing customs best practice and risk management techniques; (c) simplifying and harmonising customs procedures; (d) advancing technical skills and the use of technology; (e) application of the Customs Valuation Agreement; and (f) such other customs issues as the parties may mutually determine.

AJCEP = ASEAN–Japan Comprehensive Economic Partnership; RCEP = Regional Comprehensive Economic Partnership.
 Source: Authors.

1.2.2.4 Sanitary and Phytosanitary Standards, Technical Regulations, and Conformity Assessment Procedures

Although the RCEP provides more detailed information on sanitary and phytosanitary standards (SPS) and technical barriers to trade (TBT) than the AJCEP, the AJCEP formulates sub-committees for SPS and TBT to exchange information; facilitate cooperation and technical consultations; and provide capacity building, technical assistance, and exchange of experts (Table 1.6). Therefore, the AJCEP is likely to benefit policymakers, especially in AMS, resulting in more comprehensive liberalisation of goods despite the rise of non-tariff measures.

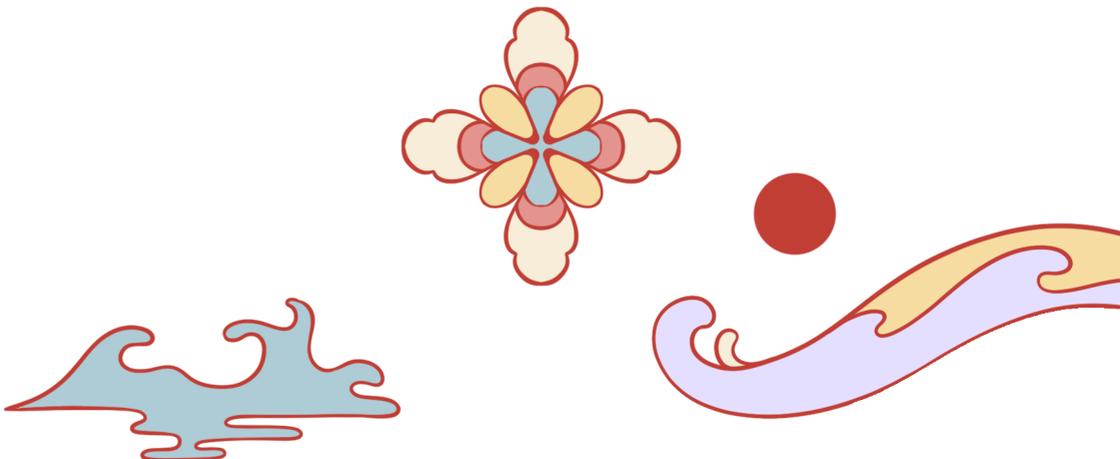
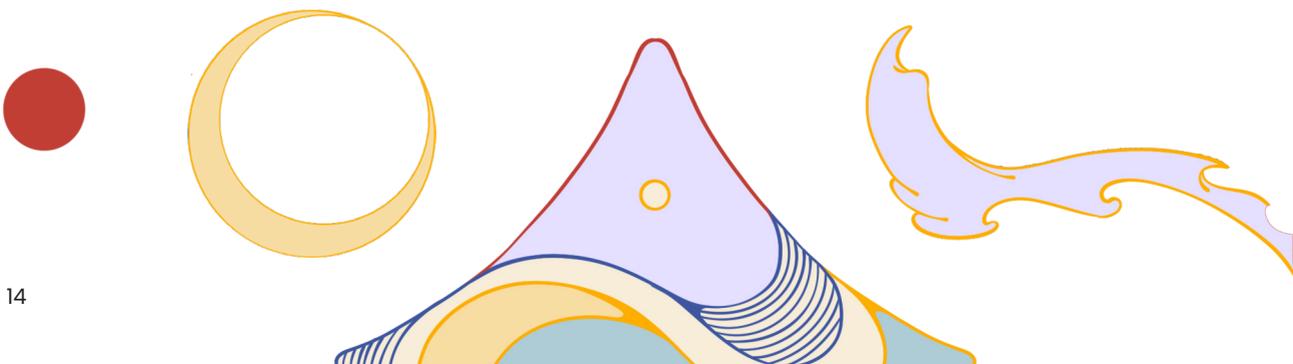


Table 1.6: Sanitary and Phytosanitary Standards, Technical Regulations, and Conformity Assessment Procedures, AJCEP and RCEP Agreements

	AJCEP	RCEP
Sanitary and Phytosanitary Standards		
Sub-Committee on Sanitary and Phytosanitary Standards	Chapter 4, Article 40	No, but following the WTO Committee on Sanitary and Phytosanitary Measures and reporting directly to the Committee on Goods
Enquiry/Contact Points	Chapter 4, Article 41	Chapter 5, Article 5.15 More details
Adaptation to Regional Conditions, including Pest- or Disease-Free Areas and Areas of Low Pest or Disease Prevalence	No	Chapter 5, Article 5.6
Other Operational Details	No	Chapter 5: Article 5.8: Audit Article 5.7: Risk Analysis Article 5.9: Certification Article 5.10: Import Checks Article 5.11: Emergency Measures Article 5.12: Transparency Article 5.13: Cooperation and Capacity Building Article 5.14: Technical Consultation Article 5.16: Implementation Article 5.17: Dispute Settlement

	AJCEP	RCEP
Standards, Technical Regulations, and Conformity Assessment Procedures		
Sub-Committee on Standards, Technical Regulations, and Conformity Assessment Procedures	Chapter 4, Article 48	No, but following the WTO Committee on Sanitary and Phytosanitary Measures and reporting directly to Committee on Goods
Cooperation	Chapter 4, Article 46	Chapter 6, Article 6.9
Enquiry/Contact Points	Chapter 4, Article 47	Chapter 6, Article 6.12
Other Operational Details	No	Chapter 6: Article 6.5: International Standards, Guides, and Recommendations Article 6.6: Standards Article 6.7: Technical Regulations Article 6.8: Conformity Assessment Procedures Article 6.10: Technical Discussions Article 6.11: Transparency Article 6.13: Implementing Arrangements Article 6.14: Dispute Settlement

AJCEP = ASEAN–Japan Comprehensive Economic Partnership, RCEP = Regional Comprehensive Economic Partnership, WTO = World Trade Organization.
Source: Authors.



1.2.3 Investment

Concerning investment provisions, the scope of prohibitions of performance requirements⁵ in the RCEP is more comprehensive than in the AJCEP, potentially improving the RCEP's legal stability and predictability (Table 1.7). However, the AJCEP may provide more benefits to AMS regarding technology-transfer requests and royalty regulations. Japan and AMS can negotiate to what extent and what level of technology transfer should occur to incentivise Japanese investors and to help improve the production capacity of AMS. Technical assistance – one of AJCEP's FTA+ commitments – can improve AMS capacities and encourage them to identify comparative advantages. For instance, Somboon Advance Tech, a Thai automotive manufacturing company, had Japanese partners and technical assistants from Japan provide technical support and training to Somboon's engineers (Korwatanasakul and Intarakumnerd, 2020). With such research and development capability, the company became more self-reliant and established its own technical team to reduce the use of technical assistants.

Yet under the AJCEP, the negotiation of the investment chapter has been challenging due to (i) new issues, such as most-favoured nation treatment, the ratchet mechanism, prohibition of performance requirements, and non-conforming measures; (ii) no multilateral rules governing the protection of FDI; (iii) the connection to a commercial presence in the trade in services chapter; and (iv) preferences on investment regulations for national authorities and development.



⁵ The RCEP includes commitments to prohibit performance requirements (e.g. a specified level or percentage of domestic content or technology transfer requirements) on investors as conditions for entering, expanding, or operating. It ensures future relaxation of investment measures covered by the agreement and mitigates backtracking of commitments. It also includes a built-in work programme on investor-state dispute settlement provisions. (MTI, n.d.)

Table 1.7: Main Provisions of Investment Chapters, AJCEP and RCEP Agreements

Provision		AJCEP	RCEP
National treatment at the entry stage		Deferment until preparation of reservation list	O
Most-favoured nation treatment at entry stage		Renegotiation	O ¹
Specific measures demand for performance	WTO TRIMs (e.g. local procurement requirements, prohibition of import/export balance requirements)	O	O ¹
	Prohibition of technology transfer requests	X	O ²
	Prohibition of royalty regulations	X	O ²
Reservation table	Adoption of the negative list method	Negotiate after entry into force	O
	Ratchet duty	Renegotiation	O ³

AJCEP = ASEAN–Japan Comprehensive Economic Partnership, ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People’s Democratic Republic, RCEP = Regional Comprehensive Economic Partnership, WTO TRIMs = World Trade Organization’s Agreement on Trade-Related Investment Measures.

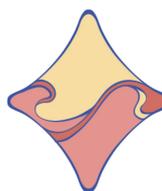
Notes:

¹Cambodia, the Lao PDR, Myanmar, and Viet Nam are exempted.

²Cambodia, the Lao PDR, and Myanmar are exempted. Reservations in most of ASEAN.

³Cambodia, the Lao PDR, Myanmar, Indonesia, and the Philippines remain obligated to maintain the status quo (i.e. standstill obligation).

Source: Authors, based on JETRO (2022).



1.2.4 E-Commerce

The AJCEP has no provisions for e-commerce because e-commerce is a new field (Table 1.8). Since developing countries participate in the RCEP, several reservations and non-conforming measures remain. Therefore, establishing a framework of rules for e-commerce is a significant step forward.

Table 1.8: Provisions on E-Commerce, AJCEP and RCEP

	AJCEP	RCEP
Free cross-border data distribution	No	Chapter 12, Article 12.15
Prohibition of data-localisation requests	No	Chapter 12, Article 12.14
Tariff-free import duties	No	Chapter 12, Article 12.11
Prohibition of source-code disclosure requests	No	No
Non-discriminatory treatment of digital products	No	No
Prohibition on requests for the disclosure of cryptography-related technologies	No	No

AJCEP = ASEAN–Japan Comprehensive Economic Partnership, RCEP = Regional Comprehensive Economic Partnership.
Source: Authors, based on JETRO (2020).



1.2.5 Competition

The AJCEP lacks an implementing agreement and inter-agency cooperation regarding competition (Table 1.9). The implementing agreements specified in the RCEP include appropriate measures against anti-competitive activities, the confidentiality of information, and consumer protection, amongst others.

Table 1.9: Provisions on Competition

	AJCEP	RCEP
Implementing agreement	No	Chapter 13, Articles 13.3, 13.5, 13.7
Inter-agency cooperation	No	Chapter 13, Article 13.4

AJCEP = ASEAN–Japan Comprehensive Economic Partnership, RCEP = Regional Comprehensive Economic Partnership.
Source: Authors, based on AJC (2021).

1.3 Way Forward

1.3.1 AJCEP Strengths

The AJCEP provides unique mechanisms, such as higher tariff concession rates and sub-committees for SPS and TBT, that can facilitate trade liberalisation. Under the AJCEP common framework, Japan can institutionalise and accelerate its technical and development assistance to ASEAN – the FTA+ commitments. For instance, under the AJCEP, ASEAN and Japan have commenced several initiatives to improve AMS capacities and to encourage them to identify comparative advantages (e.g. technical assistance for and capacity building in ASEAN, trade and investment promotion and facilitation measures, trade and investment policy dialogue and business sector dialogues, measures to facilitate the mobility of businesspeople, and exchange and compilation of customs tariff and bilateral trade statistics). These efforts can be combined with human and physical resources and the experience of more developed AMS to assist those less developed, strengthening solidarity within ASEAN.

1.3.2 AJCEP Challenges

Based on the analysis, the RCEP is generally more comprehensive than the AJCEP, as it covers wider provisions on trade remedies, e-commerce, government procurement, general provisions and exceptions, institutional provisions, customs procedures and trade facilitation, trade in services, temporary movement of natural persons, investment, intellectual property, competition, and small and medium-sized enterprises. The challenges are summarised in Table 1.10.

Table 1.10: Challenges of the AJCEP

Challenge	Detail
Inefficient trade liberalisation	<p>Lack of systematic discussions on trade remedies, e-commerce, government procurement, and general provisions and exceptions</p> <hr/> <p>Light commitments (e.g. limited to joint research, cooperation, exchange of information or other forms of non-binding assistance) in several chapters, including customs procedures and trade facilitation (Chapter 2, Article 22); trade in services (Chapter 6); temporary movement of natural persons (Chapter 6); investment (Chapter 7), intellectual property, competition, and small and medium-sized enterprises (Chapter 8, Article 53)</p> <hr/> <p>Complicated and incomprehensive rules of origin, leading to low utilisation rate and weak trade creation effects</p> <hr/> <p>Complicated and slow customs procedures without sufficient trade facilitation.</p> <hr/> <p>Slow adoption of new technology (e.g. the application of information technology for customs procedures and trade facilitation)</p>
Slow development of trade in services investment and other provisions	<p>Outdated information, provisions, and official website</p> <hr/> <p>Lack of provisions on e-commerce, application of information technology, performance requirements, competition, ratchet mechanism, and non-conforming measures</p> <hr/> <p>Lack of mechanisms for negotiations across chapters (e.g. investment chapter and trade in services chapter).</p> <hr/> <p>Lack of appropriate measures against anti-competitive activities, the confidentiality of information, and consumer protection</p>
Lack of government institutional provision	Lack of governmental bodies to monitor and to accelerate progress and to solve issues

1.3.3 Policy Suggestions

Firstly, the AJCEP should be expanded to cover the provisions that have been covered by the RCEP to maximise the benefits of both the AJCEP and the RCEP.

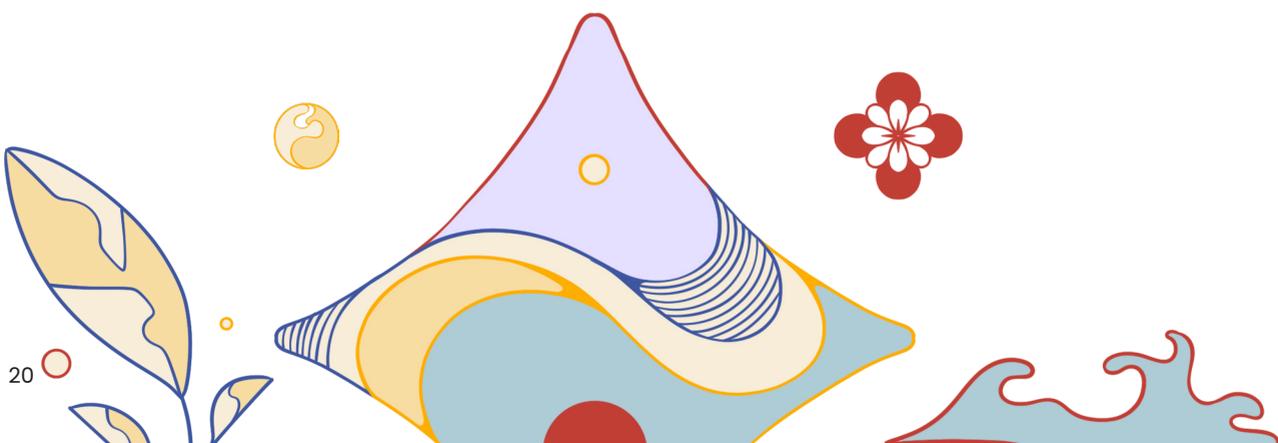
On one hand, the AJCEP mainly benefits AMS capacities due to the FTA+ commitments and unique mechanisms (e.g. higher tariff concession rates and sub-committees for SPS and TBT) that facilitate trade liberalisation.

On the other hand, the RCEP provides a more comprehensive discussion on trade liberalisation and the deepened regional value chains amongst RCEP parties; therefore, ASEAN and Japan are able to enhance their regional production networks and, in turn, improve competitiveness as production and exporting hubs of goods and services, particularly from the manufacturing sector.

ASEAN and Japan can maximise their gains from both the AJCEP and RCEP through compatibility between the two agreements, which may enhance ASEAN's role as an exporter of technology-intensive products to the rest of the world, while Japanese manufacturers would have a greater incentive to fragment their regional production value chains instead of locating in bilateral economic partnership agreement partners.

Secondly, the AJCEP should expedite its development of trade in services, investment, and other provisions, implying that more discussions between Japan and AMS are required to raise awareness of the benefits of the AJCEP and to speed up ongoing trade liberalisation. Furthermore, as the AJCEP lacks information technology utilisation and discussion on e-commerce, the AJCEP must undergo a digital transformation at the policy discussion and formation levels as well as the policy implementation level to utilise digital technology effectively and efficiently in trade liberalisation and facilitation.

Lastly, given the difficult and complex process of creating a single, continent-wide market for goods, services, and investment, it is logical that regional institutions be developed over time to enforce rules and to monitor implementation. One critical institutional support is the establishment of the AJCEP Secretariat to oversee the overall implementation of the AJCEP agreement.



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