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The Bargaining Power Boost: Analysing the Influence of Regional Bloc Membership on Trade Negotiations

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**The Bargaining Power Boost: Analysing the Influence of Regional Bloc Membership on
Trade Negotiations**



**Universiteit
Leiden**
The Netherlands

Bachelor thesis International Relations and Organisations

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Introduction

“Power arises from asymmetrical interdependence”, this quote from Klaus Knorr has been used in the field of political economy for the last decades. The idea that power dynamics imbalance relationships between countries has been at the forefront of realist thinking within states. However, with the recent advent of regional institutions, smaller states have found a way to hold bigger impact in global decision-making processes. Since the creation of the ECSC in 1952, a gradual wave of regionalisation has spread around the world. Mercosur was established in 1991 in response to low regional interaction within Latin America, the African Union was founded in 2002 and ASEAN was created in 1967. The latter is easily forgotten, despite its resistance to the Cold War and the China-US rivalry. Its purpose was to counteract hegemonic interests by promoting its member’s voice.

When ASEAN was created it committed to four foundational norms: a peaceful dispute settlement mechanism, regional autonomy, a doctrine of non-interference, and no region wide military pacts (Narine, 2008, p. 413). ASEAN established a simplified approach to regionalism, through a full consensus mechanism, and sidelining disagreements avoid limiting cooperation. From the start ASEAN was created to balance the threat of external powers in the region, increasing members’ power as a regional group. Threats from the USSR and China led ASEAN to declare itself peaceful and neutral in a contentious area (p. 417). After a lack of action and consensus during the East Asian economic crisis, ASEAN found itself having to restructure, given weak decision-making mechanisms, and lacking will for unified cooperation. In 2003 the ASEAN Economic Community (AEC) and ASEAN + 3 were created, slowly leading to an ASEAN integrated market, within member states and other countries in the region, leading to increased economic initiatives within Asia (p. 423).

What makes this research socially important is that Japan and ASEAN have had a decades long relationship due to their geographical proximity. Japan’s long-standing hegemony in the region has chronically imbalanced the relationship between ASEAN and Japan. Radha Sinha (1982) called the relationship “colonial”, given a one-sided trade partnership heavily focused on exportation of Japanese products to the region, while ignoring ASEAN’s growth potential as a unified market (Sinha, 1982, p. 484). Now Japan is ASEAN’S third largest trading partner and the second largest FDI donor. The promotion of an equal partnership between the two is a priority for both entities, as cooperative dialogues, multilateral discussions, and trade agreements have created a closer partnership (Ing, 2023). As a result, it is relevant to research

whether the creation of ASEAN has rebalanced the relationship between a group of smaller states and their regional trade partners.

Research Question

Considering the importance of ASEAN on the world stage, this thesis will examine the impact of membership to regional organisations for their relative bargaining power in trade deals. In other words, the research question answered is: **How does membership in a regional bloc affect the bargaining power of a country in trade deal negotiations?**

The analysis uses a small-N case study. Two cases are selected: Malaysia and Indonesia. The thesis tests the effect of membership on bargaining power when they bargain alone with Japan or within ASEAN. Indonesia and Malaysia are analysed as diverse cases, as they differ substantially in GDP and different industries make up their export profile.

Both countries have had economic relations with Japan for a significant amount of time, individually and within ASEAN. Japan was chosen as the effect case as it has trade deals with ASEAN and individual countries within ASEAN. The trade deals between Indonesia and Malaysia with Japan were ratified within two years of the ASEAN-Japan deal of 2008, making them particularly suitable for comparison. The Indonesia-Japan deal was ratified in 2008 while the deal with Malaysia was ratified in 2006. The research employs a content analysis of three different trade deals, looking into articles and annexes to conclude on the substance of the deals.

The thesis first expands on the literature regarding trends in regionalism and bargaining power to show how ASEAN has grown as a unified institution in the region. Secondly, the theoretical framework delves into the theories conjunction into regionalism as a method of bargaining power, leading to the hypothesis. The research design, in the methodology, dives into how the trade deals are analysed to provide an answer to the research question. Finally, the analysis provides an in-depth review as well as statistics to discuss the research question.

Literature Review

While there is literature covering the theories applied to ASEAN, the literature does not cover collective bargaining power to achieve greater results regarding economic trade deals.

The article by Park (2006) covers the evolution of Japan's policy on integration in the East Asian region, going from "reluctant" to "proactive" about regional collaboration (Park, 2006, p. 285). The paper argues that Japan's proactive integration projects have been linked to a post-Cold War era, and the advent of neo-regionalism in East Asia. The article sees neo-regionalism as a new movement to find a region in the world and "give it a specific role to play in economic, political ... affairs" (p. 285). Unlike the article neo-regionalism in this paper follows an integrative approach to cooperation aiming to regionally achieve mutual benefits. Both views see neo-regionalism as a nuanced theory, but unlike the article which sees it as a project to build a new world order this thesis approaches it as integration to find a place within the order for more and fairer gains. Park explains that Japan only began its leadership role in regional integration after the Asian financial crisis, caving to external and internal pressure, using it as a coping mechanism as a last-ditch effort (Park, 2006). Contrary to neo-regionalism, which highlights the mutual gains countries can find through integration, Japan was historically reluctant to integrate within East Asia. Only recently has Japan started playing a more "proactive role" in the region's integration, enhancing the economic development of the region and its own position in the region within it (p. 288). Just as the neo-regionalist discussion this paper will take of regionalism enhancing countries' mutual benefits, making it rationally clear to pursue integration. Unlike this thesis the article takes a more hierarchical view of the theory, with Japan guiding the integration efforts for east Asia and ASEAN. It overviews how Japan has been taking a more "open regionalism" approach to shape the integration to ASEAN and to become a central player of this new development (p. 291).

The second article, *Indonesia's regionalism in Southeast Asia* examines the contribution of Indonesia in regional integration. They argue that the rise of these established institutions has helped regionalism flourish in the area, specifically attributing ASEAN as a key contributor for integration (Ramiz, 2020, p. 29). The article highlights the importance Indonesia has had as a regional leader in growing the bargaining power of the region to gain an influential trading position (p. 31). Indonesia's integration and decision to join in a leadership role were rational calculations to further national interests and maximise benefits from collective liberalisation, consistently with neo-regionalism. Neo-regionalism highlights how the relative power states hold while joining an institution increases the latter's gains overall. The article takes a broader approach of the gains from cooperation, given how ASEAN frameworks have increased cooperation in areas such as politics, security, culture as well as economics (p. 34). Contrarily, the thesis specifically investigates how this integration helps ASEAN increase their importance

in the region and increase the bargaining power with other regional hegemony. Developing a stronger security environment within ASEAN increases collaboration and integration as a more stable region would mean more collective bargaining power to face a competitive international environment. ASEAN has created stability within a region that previously had low credibility, ASEAN now works as a neutral voice and addresses security and stability matters by promoting dialogue (p. 34). Both articles notice that the culmination of ASEAN occurred after the end of the Cold War, five new countries joined ASEAN and there was an effort to legalise ASEAN as a more serious institution on the world stage, enabling ASEAN to flourish (p. 32).

The third article by Stiller (2023) explores bargaining power. The conceptualisation of bargaining power in academia is confused, thus the article aims to investigate how much the market power hypothesis still stands in this modern globalised world (Stiller, 2023, p. 173). Thusly, this thesis' understanding is that the greater economic power the more bargaining power a country will have negotiations. The authors argue that with the ongoing changes in the global economic environment the case could be that market power plays a smaller role in determining trade positions during negotiations (p. 175). While this article argues this new environment diminishes the power of larger states, this paper looks at how this new regional environment increased the power of smaller states, as conjoined economic POWER within ASEAN can create a bigger need for larger states to create economic agreements due to their dependence on products from those countries. Stiller researched the degree of importance of economic power through an analysis of liberalisation commitments. For that he analysed service chapters in different trade agreements and compared them to the GDP gap between the two parties to the agreement. (p. 179). His hypothesis was that "the higher market power of a country compared to its partner, the smaller the concession the country will make" (p. 177). This is in line with the analysis the research since ASEAN has started negotiating in union, trade with Japan has become more equal since the countries put themselves in an economic partnership. Furthermore, this article solely focuses on the service provisions of the trade agreement, while this research will focus on the whole trade agreement to get a broader view of what concessions countries are willing to make. Furthermore, a lot of agreements, including the ASEAN agreement lack a substantial provision article in services, making some data irrelevant. The results the article found were that the market power analysis still held in most cases with stronger countries giving less concessions in trade negotiations (p. 190). Additionally, the article found that the more economic interdependence the two countries held the less concessions were made in negotiations. This thesis has adopted a small case study to

analyse Malaysia and Indonesia's singular relationship to Japan to see whether ASEAN trading did help the fairness of negotiations or whether countries with strong economic ties to Japan can bypass asymmetry individually, ultimately disproving this paper's hypothesis.

Theoretical Framework

To answer the question at hand it is important to dive deeper into the theories of neo-regionalism and bargaining power, to show how being part of a regional institution precedes bargaining power gains as a collective against larger regional hegemony.

Even though the paper will follow a content analysis, the hypothesis will be derived from the neo-regionalism theories of bargaining power in conjunction with neo-regionalism, both exploring the idea of mutual economic benefits from regional integration. Neo-regionalism explores how regions come together with the sole purpose of increasing collective influence (Sawal, 2023, p. 67). Neo-regionalism being a relatively recent theory, having gained academic relevance after the Cold War, is heavily interlinked with ASEAN since the vacuum that the USSR left in East Asia, caused ASEAN to begin promoting a bigger establishment of the institution, specifically through the AEC. The theory posits that integration can be "a means of promoting economic growth" something that the AEC has been promoting in the region since the start of the 21st century (p. 67). The theory proposes that with a more stable regional environment, the countries within the institution hold more collective bargaining power to face a competitive global environment. States have an incentive to join regional organisations to promote their own agenda and have a stronger voice in international matters during the negotiations, all for the purpose of increasing their development.

Bargaining power on the other hand focuses more on a country's ability to create an outcome on a trade negotiation closer to its ideal point in respect to the ideal points of the opposing party in the negotiation (Frieden & Walter, 2019, p. 140). After a lot of contestations there is still not one clear definition of bargaining power in the field of political economy. Therefore, this thesis will consider predominantly the theory of market power to analyse the data. The latter analysis argues that "the larger a country's market is, the more bargaining power that country holds in negotiations", this occurs since market access is a valuable opportunity for any trading partner the country has, due to its high GDP and economic opportunities (Stiller, 2023, p. 173). This definition was picked as it can be easily conceptualised by calculating the distance between the outcome of a negotiation and the initial ideal points from the negotiation.

Together market power and regionalism will be the two theories forming this thesis, in conjunction with each other both theories look at the diverging dynamics of smaller states being at a disadvantage when bargaining with larger states, in this case Japan. Versus smaller states coalescing together into an economic bloc to counter this effect and find mutual bargaining power.

Following these theories the main hypothesis this thesis will follow is:

H1: Membership in a regional trade bloc positively affects the bargaining power of a country in trade deals

Conceptualisation

To fully start this investigation a few terms will have to be conceptualised. The terms analysed will be bargaining power, and what makes a good trade deal.

In this research context, bargaining power is assessed by the market size that ASEAN can bring to negotiations. Usually bargaining power is seen as a broad concept with no clear definition, therefore for this project the market power hypothesis is considered the most suitable to for this context. The operationalisation of this theory can be done by analysing the gap in GDP between the two parties and seeing the extent that concessions were made. Individually Malaysia and Indonesia should be making more concessions in their trade agreement than when they collectively bargaining with Japan in the community of ASEAN. The economic bloc will benefit from a stronger collective bargaining power as their collective pooled GDP will be greater and therefore Japan has a bigger need to bargain with all states due to its economic dependence to ASEAN and the more opportunities it presents as a collective larger market.

A good trade agreement involves a comprehensive and specific set of commitments that all parties can agree to. The best-case scenario for a country in a trade deal is to fully open the market of your partner in the deal but not reducing its own trade barriers at all (Elms, 2020). Unfortunately, this is not possible. In this context a trade deal will be considered beneficial the closer it comes to the initial aims a country has going into the negotiations. Found on the joint reports. Whether Japan or Indonesia and Malaysia achieve the most within the negotiations, will be found by a content analysis. The latter will be comparing the before and after of the trade deals. Additionally, the more topics a trade deal covers, such as trade in services, movement of persons and provisions for companies, the more comprehensive and clearer to parties it becomes (Elms, 2020). Not only does it benefit more actors, but it also facilitates

trade if the agreement makes everything related to trade clear. Furthermore, liberalisation schedules should indicate who the trade deal benefits the most, since ASEAN countries are less developed than Japan, they benefit from a longer schedule of tariff liberalisation. However, tariff schedules also need to consider specific requests any country makes to specific products they want included into the sensitive sector protection. A good trade deal manages tariff elimination requests as well as tariff protection from both parties. Recognising which party benefits from a trade deal the most depends on the long-term effects trade deals have on patterns of trade between the parties.

Methodology (Operationalisation)

To answer this research question, the study will employ a small case study analysis based on qualitative content analysis. The small case study will ensure a consistent level of in-depth analysis while still applying some generalisability with other cases. Even though many trade deals were signed between ASEAN member states and Japan around the period of 2009, the year the ASEAN-Japan trade agreement was ratified, Indonesia and Malaysia were chosen as the typical cases due to the variety of the cases. Ever since ASEAN approved the Hanoi Plan of Action in 1998 there has been a push in the region for more economic integration (Hanoi Plan of Action, 2012). This has led to the creation of a multitude of trade agreements, ASEAN itself has been a signatory of multiple regional trade agreements, just as Japan has signed several agreements with individual countries within ASEAN. This rapid economic expansion resulted from the economic crisis that hit Asia in the late 90s (Hanoi Plan of Action, 2012). Malaysia and Indonesia were chosen as cases since they boast a close relationship to Japan, the implementation of these economic agreements was done to continue a mutually beneficial relationship with Japan. Japan has been Indonesia's third largest exporter in sectors such as minerals, electronic equipment, and ore slag, making its trade primarily industrial (Indonesia exports by country, 2022). Indonesian trade has a specific focus on coal, Palm Oil, and metals, which are unrefined products (ibid). Meanwhile, Japan has been Malaysia's fifth largest exporter, specifically exporting fuels and oils, electrical equipment, and medical apparatus (Malaysia exports by country, 2022). Both cases were chosen due to the diversity of their economic profiles. Malaysia economic profile is broader with a bigger focus on exporting services, which accounts for almost \$40 billion in revenue per year, while its goods export profile is mostly machinery and refined petroleum (ibid). Both countries have a similar export product value of \$378 billion for Malaysia and \$320 billion for Indonesia, even though

Indonesia has a higher nominal GDP than Malaysia, Malaysia does have a higher GDP per capita, keeping the theme of the diversity of the two cases.

Both countries were picked as founding members of ASEAN therefore having no special development clauses within the trade agreements that would impact the data analysed. Furthermore, they are not extreme cases as they both do not have substantial economic power while still being important countries in their region. Cases were picked between 2006 and 2008 so that the effects of the Asian economic crisis have since passed and the economic crisis of 2008 has no negative effect on bargaining power or trade data during the trade negotiations.

Case Selection

This research will examine trade deal documents. Halperin and Heath (2020) place the importance on case studies saying “something interesting and meaningful about the case that is being addressed” as well as being externally relevant and contribute to wider academic literature, therefore giving case studies internal and external validity (Halperin & Heath, 2020, p. 234). Small case studies are very common to political academia since they allow both an in-depth analysis of the cases while not sacrificing the contextualisation of the case to a wider scope, making this the most useful methods for the theoretical framework creation for this specific paper (p. 238).

Halperin and Heath also explain how content analysis is the best method for a case study because it allows for a analysis of a large sample size that would not be accessible through direct data collection (p. 174). Additionally, this type of analysis allows for a subjective review of political data, in this case trade deals, that allows for a wide scope of research since as long as the sources are available, data collection is available. Furthermore, this analysis will allow a level of generalisability because qualitative analysis allows for “categories to emerge out of the data” (p. 379). This will allow for a systematic latent analysis of the content with a wide range of data for all three countries, allowing for a wide range of data.

Source Selection

The sources for these cases are mostly going to focus on trade documents. A substantial part of the documents was taken from the WTO dataset of Regional Trade Agreements (WTO, 2024), making the sources highly reliable as they were taken from a trusted source. The trade

agreements include the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), Indonesia–Japan Economic Partnership Agreement (IJEPA), and the Malaysia-Japan Economic Partnership Agreement (MJEPA), all written under the accordance of the 1994 GATT agreement from the WTO. Internal joint reports were all taken from the Japanese ministry of Foreign Affairs website but were approved and signed by all the parties involved. Each case consists of data collected from the Joint reports to see what the initial requests are from both parties, before the trade deal starts. Secondly, the data was taken from the main body of the trade deal, the annexes, and schedules to examine the contents of the trade deal and comparing it to the initial requests. Finally, additional data was taken from the fact sheet written after the trade deal by both parties. These cases were also easily accessible through internet websites which made data collection very accessible.

This paper's analysis is not limited to trade deal contents, the data analysis section will compare results found in the trade deals to trade data with the countries involved to see whether the trade deals have made the countries better off or not.

Data Collection

Table 1

Japan requests		ASEAN requests	
Dispute settlement	✓	Dispute settlement	✓
Further enhance cooperation	✓	Further enhance cooperation	✓
Computerisation of procedures	✓	Rise in electrical machinery	✓
Increase investment from ASEAN	✓	Increased investment from Japan	✓
		Enhancement of trade in services	✓
Tourism/Movement of persons	x	Tourism/movement of persons	×
HR for economic development	✓	HR for economic development	✓
Lowering tariff barriers	✓	Lowering tariff barriers	✓
Lowering import quotas	×	Lowering import quotas	×
Lowering customs clearance procedures	✓	Lowering customs clearance procedures	✓
Government procurement	×	Government procurement	×
		Improvement of market access in agriculture, fishery, and forestry in Japan	✓
		Sanitary measures	✓
		Protection of intellectual rights	✓
		Trade in services	×
Transparency in foreign contractors	×		
Prevention of smuggling	×		
Improvement of domestic regulation	×		
Acceleration in customs clearance	✓		
Reduction of tariffs on manufactured products	✓		

		Ease of entering services market for professional, semi-skilled and skilled workers	×
Rules on origins on the concession of tariffs (40%)	✓	Rules of origin on the concession of tariffs (40%)	✓
Review of non-tariff barriers	✓	Review of non-tariff barriers	✓
Improved communication of customs officials	-	Improved communication of customs officials	-
Liberalisation and facilitation of investment	✓	Liberalisation and facilitation of investment	✓
Protection of intellectual property rights, office administration, strengthening of enforcement	×	Protection of intellectual property rights, office administration	×
Collaboration to curb anti-competitive activities	×	Collaboration to curb anti-competitive activities	×
Hard infrastructure	×	Hard infrastructure	×
Transparency in FDI flows	×	Transparency in FDI flows	×
Capacity building and technical cooperation	✓	Capacity building and technical cooperation	✓
		Relaxation of investment regulations in service sectors	×
		Movement of businesspeople	×
Cooperation for stability and suitable development	×	Cooperation for stability and suitable development	×
Environmental protection	✓	Environmental protection	✓
Cooperation in the industrial sector	×	Cooperation in the industrial sector	×
		Investment in industries and industrial infrastructure	×
14/27 = 52%		15/31 = 48%	

Table 1: Japan - ASEAN initial requests to outcomes

Table 2

Japan requests		Tariff base rate	Indonesia requests		Tariff base rate
Elements consistent with Article XXIV of GATT	✓		Elements consistent with Article XXIV of GATT	✓	
Tariff elimination: Auto and auto parts	-	B3 (5%)/B5 (10%)	Tariff elimination: Organic chemicals	✓	A
-Electronics	✓	A	-Plastic bags	-	B7 (10%)
-Steels	×	X	-Glass products	✓	A
			-Textiles	✓	A
-Textiles	✓	A	-Footwear	×	X
No Japan tariff elimination in footwear	✓		Industrial promotion considering the development gap	×	
Build coordinated strategies between sectors	✓		Transfer of science technology, HR development	✓	
Tighten partnership between industries	✓		Tighten partnership between industries	✓	
Elimination of export subsidies and duties in agricultures, forestry, and fisheries	✓		Dialogue between textile industries	×	
Sensitive sector: Rice and rice products	✓	X	Cooperation between auto part industries	✓	
-Barley	✓	X	Improvement of the development and trade in agriculture,	✓	

			forestry, and fishery areas		
-Wheat	✓	x	Sensitive sector: Rice and rice products	✓	X
-Meats	-	A/X/R	-Corn	-	X/B3 (5%)
-Pineapples	✓	X	-Soybeans	×	B5 (5/10%)
-Bananas	-	Q/R/B10 (10.5%)	-Sugar	-	X/B7 (5%)
-Starch	✓	X	Cooperation in quarantine area	-	
-Sugar	-	A/X	Protection of small-scale farmers	×	
-Dairy	✓	X	Cooperation on organised fishery resource management	✓	
-Wood panels	×	A	Cooperation on farmer organisations	×	
-Tunas	-	R	SPS issues	×	
-IQ products	×	A	Illegal international trade addressed	✓	
-Oils and fats	-	A/B7 (3%)	Improvement on plywood tariffs	✓	
-Processed foods	×	B3 (5%)	Technical support eliminating IUU fishing vessels	×	
SPS should not be dealt with	✓		Cooperation with both customs procedures	✓	
Request to Indonesia to fight illegal logging	×		Assistance to strengthen IP systems	✓	

Organised fishery resource management + cooperation	✓		Enforcement of cooperation (exchange of information, capacity building, competition policy)	✓	
Enhance predictability of customs procedures (transparency in procedures and uniform application)	✓		Recognition of vocational qualifications	✓	
Customs procedures should: ensure transparency, cooperation and exchange of information, establishment of follow up mechanisms	✓		Service sector liberalisation: Tourism sector	✓	None
Intellectual property should: improve IP protection system, accession to international agreements, improve administrative procedures, enhance public awareness, enhance enforcement	✓		-Information services	✓	None

Protection for the rights of breeders of agriculture, forestry, fisheries	✓		-Communication services	✓	None
Harmony of rules of Origin with other trade agreements	✓		-Maritime transport services	-	None/ Nationality requirement
Improvement of business environment with free competition	✓		-Construction services	✓	Unbound/ None
Investment: NT, MFN treatment, prohibition of performance requirements and market access	✓		-Education services	✓	Unbound/ None
Service sectors liberalisation: Constructions sectors	-	None/Joint registration operation with national company	-Health services	✓	None
-Manufacturing services	-	None/Joint registration operation with national company	-Financial services	✓	None
-Information services	✓	None	Recognition of qualification in tourism services	✓	
-Communication services	-	None/Foreign equity	Recognition of qualification in hotel services	✓	

		participation is limited to 40%			
-Tourism services	-	None/with limits	Recognition of qualification in spa services	✓	
-Distribution services	✓	None/Unbound	Recognition of qualification in food services	✓	
-Financial services	-	Unbound/with exceptions	Recognition of qualification in caregiver services	✓	
-Legal services	-	None/with exceptions to foreign lawyers	Recognition of qualification in seafarers' services	✓	
Mineral resources industry includes (deregulation of market participation for Japan, improvement of investment environment, stable supply of resources)	✓		Recognition of qualification in nurses' services	✓	
Limits on movement of natural persons to professional and technical workers	-		Improvement of business environment in public/private sectors	✓	
Mechanism for the improvement of the business environment	✓		Technical cooperation on standards of conformance in:	×	

			textiles, automotive, electronics, eyeglasses and jewellerys, steel, and ship building		
Utilisation of Joint forum on Investment	-		Training schemes in: working conditions, expansion of covered areas, employment after internships	×	
Mechanism to improve customs clearance, taxation, labour promotion of investment of supporting industries, infrastructure	-		Technical cooperation: fishery, forestry, and agriculture	✓	
Cooperation and market access in agriculture	✓		Technical cooperation on organic farming and empowerment of small-scale farmers	×	
			Harmony of Rules of Origin with other trade agreements	✓	
	27/47 = 57%			33/49 = 67%	

Table 2: Japan-Indonesia initial requests to outcome

Table 3

Japan		Tariff base rate	Malaysia		Tariff base rate
No sector excluded from liberalisation while still considering sensitive products	✓		No sector excluded from liberalisation while still considering sensitive products	✓	
tariff elimination: Automobiles	-	B5 (5%)	Tariff elimination: Textiles	✓	A
-Electrical machinery	✓	A	-Chemical products	✓	A
-Iron	-	A/B7 (30%)/ B6 (50%)	-Vegetables	-	A/ B5 (3%)
-Steel	-	A/B7 (15%)	-Fruits	-	A/B7 (7%)/ B5 (6%)
-Textiles	✓	A	-Value added animal products	×	R
Elimination of Malaysia's import approval measures	-		-Fisheries	✓	A
Sensitive sector: Agricultural products	×	B5(3%)/ A	SPS measures	✓	
-Starch	✓	X	Sensitive sectors: automobile and auto parts	-	B7/B5 (5%)/P
-Sugar	✓	X	Partnership on agricultural projects	✓	
-Plywood	×	A	Cooperation from Japanese Plywood Corporation	×	

-Pineapples	✓	X	New quarantine measures	×	
-Leather	-	B7(1%) / B10 (13%)	Rules of origin that harmonise with other trade agreements	✓	
-Footwear	-	X/B7 (7%)	CTC rules, "Value added rules"	×	
Restriction on foreign equity in service sector	×		Liberalisation and cooperation in the service sector	✓	
Investment rules (NT, MFN, prohibitions on performance requirements)	✓		Technology transfer by the Japanese private sector	✓	
Proposes a negative list on NT, MFN, and prohibition on performance requirements	×		Areas of interests in the fields of standards and conformance	✓	
Rules of origin that harmonise with other trade agreements	✓		Simplification of IP processes	✓	
Apply CTC rules, "Value added rules"	×		Cooperation on HR development	✓	
Liberalisation for foreign direct investment measures	×		Cooperation on science and technology	✓	

Liberalisation on: number of foreign specialists, procedures for work permits for short stay foreign workers	✓		Cooperation on education	✓	
Transparency and market access measures in government procurement	-		Cooperation in ICT	✓	✓
Areas of interests in the fields of standards and conformance	✓				
Simplification of IP processes	✓				
IP protection measures on counterfeiting and copyright piracy	✓				
Information exchange, policy dialogue and technical cooperation	✓				
Incorporation of business environment enhancement measures (e private sector/governments)	✓				

Improvement of infrastructure services	✓				
Improvement of environment issues	✓				
Improvement of employment matters	×				
Improvement of human resources development	✓				
Improvement of government administration procedures	×				
	17/32 = 53%			15/22 = 68%	

Table 3: Japan-Malaysia initial requests to outcomes

Data Analysis

The analysis to find what effect membership in an economic block has on bargaining power will be split into three different sections. This section will begin by analysing the content of the actual trade deals, followed by a comparative analysis of the initial ideal points versus the outcomes of the trade deal for all three cases, then there will be an analysis of the tariff rates and schedules presented in each of the trade deals. Finally, this will all be rounded out with a time investigation on trade data collected after the ratification of the deals.

Trade deal structure

All trade deals range around one hundred pages. Appendix 1 summarises the body of the deals, the sections of what should be included were taken from the European Commission on what a trade deal should include (How to read a trade agreement, n.d.). What is noticeable is that there are gaps that the deals did not present in all three deals. Importantly none of the deals address trade remedies, electronic commerce, and institutional provisions. The trade deal with most gaps is AJCEP, as it fails to address some very important clauses such as trade in services, movement of natural persons, and investment provisions. A lack of investment clauses does not ensure any fair treatments for investors or a structure for governing rules or investor disputes, severely hindering a possibility for a beneficial relationship between parties as it does not guarantee fair treatment for investors, or a structure of rules governing investment disputes. Another issue is a lack of agreement on any clause related to ‘Movement of natural persons’, since approximately 700 million people live within the ASEAN-Japan area and many look for work abroad within this area not having an agreement on how to manage the flow of workers could be seen as a detriment to the reliability the trade deal. Comparing it to the individual trade agreements Japan negotiated in the ASEAN lacks secure provisions.

The IJEP in Appendix 1, it appears that it is more comprehensive than the other two agreements that were negotiated. Trade in services and government procurements are established, which enshrines eligibility of businesses to provide goods or services to government entities in the other parties. The latter solely requested by the Indonesia delegation and denied by the Japanese delegation, showing potentially the disproportionality of their decision-making power. Finally, looking at the Malaysia trade deal summary, we can see multiple gaps in the structure, this could be attributed to its negotiation and ratification prior to the ASEAN trade deal. Furthermore, it is the second trade deal to be negotiated after the

liberalisation surge in the ASEAN area, giving it a lack of references. What is most striking is the lack of a trade in services chapter for the trade deal, at the time of ratification in 2006, Malaysia was exporting \$25 billion in services, or 15% of their trade output (Malaysia exports by country, 2022). This absence in trade in services, made it a missing opportunity to potentially facilitate and increase trade with Japan, especially since the largest export in services is transportation.

Initial requests and trade deal contents - ASEAN

Data comparing initial requests of the parties versus the outcomes of the trade deals are presented in Tables 1 to 3. The three tables consist of columns that state each party's request, coded from the Joint Presentations (Report J.-A. E.-J., 2006) (Report J.-M. E.-J., 2003) (Report J.-I. E.-J., 2005). The second column is marked by a tick if the request is fulfilled, a cross is the request was not fulfilled or a dash if the request was partially fulfilled, finally a percentage of the requests fulfilled was calculated. Lastly a third column for any tariff rates for any requests made from the parties on tariff elimination or sensitive sector requests.

Starting with the ASEAN-Japan economic partnership, we can see in Table 1 that neither party made many singular requests and neither party made any request for specific tariff elimination or sensitive sectors. The requests made are relatively vague compared to the requests in the other agreements, such as “review of non-tariff barriers” and “facilitation of investments”. This vagueness could have been done to ensure a high approval rate of requests, in the overall deal. However, vagueness in trade deals also leads to an increase in trade disputes as government or private entities tend to see it as an incentive for rule flexibility, which in general tends to undermine the trade deal (Lester, 2023). Looking at the few individual requests ASEAN makes, they are very focused on services procurement, specifically ease of trade in services and protections for workers. All these requests are not present in the final version of the trade deal, even if they are some of the most important requests from ASEAN as many ASEAN countries have a large service sector export. Looking at Table 2 in Annex 1 we can see that tariff lines are eliminated at very similar rates for both Japan and ASEAN. While Japan has eliminated 92% of all tariff lines over a period of eleven years ASEAN eliminated 93% of all tariff lines over eleven years.

General tariff elimination rates are addressed in the factual presentation. Category R products, usually reserved for sensitive sector products, differ in elimination schedules depending on the

country. Indonesia negotiated to reduce “Category R” goods over seventeen equal annual instalments from the base rate to 5% in eleven years (Japan-ASEAN factual presentation). Malaysia reduced their “Category R” goods by either eleven annual instalments at a rate of 50%, then by 30% on the sixth year and by 20% from the eleventh year (ibid). Finally, Japan has no clear base rate commitment or yearly schedule for tariff reduction for “Category R” products. This expresses that Japan has had to make little structured commitments during tariff negotiations, while ASEAN’s commitments were more scheduled. Furthermore, Malaysia’s tariff reduction commitments are more broken down, signifying its lower development status, but equally strong commitment (ibid).

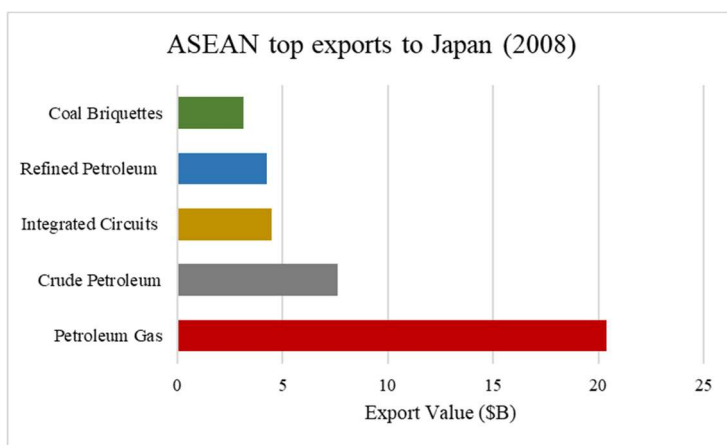


Figure 1: ASEAN top exports to Japan (ASEAN exports by country, n.d.)

When comparing ASEAN’s top exports to Japan for 2008 (Figure. 1), the year of ratification, with the tariff rate elimination quotas on the products, Japan has put in place category “A” for all of ASEAN’s top products, which means immediate tariff elimination on the date of ratification, which benefits ASEAN trade (Annex 1: Schedules for the Elimination on Reduction of Customs Duties). On the other hand, looking at Japan’s top exports to ASEAN compared to their tariff elimination rate ASEAN only fully eliminated tariffs on one of their products, while some other of those products got ratings of “B5” which means six instalments of tariff elimination or “X” with no plans for further tariff elimination, putting Japan at a big disadvantage (ibid). This is further reiterated on Table 1 as neither side managed to implement technical cooperation in the industrial sector, while tariff elimination is promised in the manufactured sector, benefitting Indonesia. This follows the theory of market access of bargaining power access to ASEAN as the theory states that “the larger a country’s market is the more bargaining power that country holds in negotiations”, and Japan’s access to ASEAN

as a whole is very imperative, meaning that ASEAN had more power to remain firm on tariff elimination and get a more favourable deal (Stiller, 2023, p. 173).

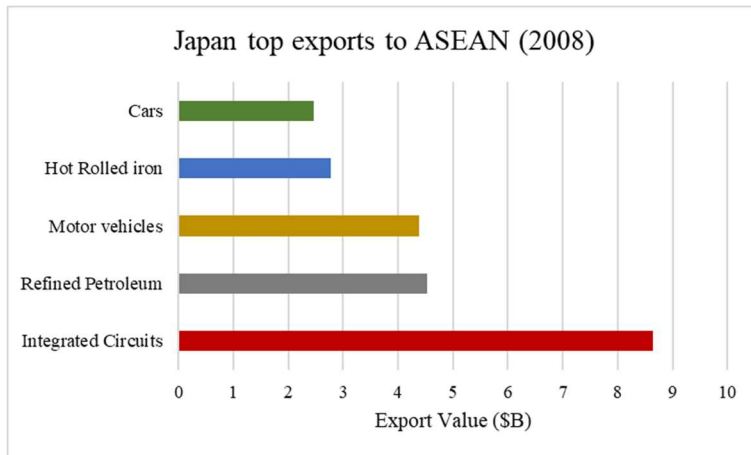


Figure 2: Japan top exports to ASEAN (ASEAN exports by country, n.d.)

Overall, Japan has a 52% success rate over ASEAN’s 48% success rate (Table 1), for outcome implementation. While this disproves the initial hypothesis it is also remarkable that both parties average a 50% success rate on outcome application, which is relatively low, considering all parties have a higher implementation rate in all other cases studied in this paper. This does not follow the theory of neo-regionalism, which believes that together united countries can have a stronger voice to face their demands in these situations (Sawal, 2023, p. 67). Since ASEAN was not even successful in achieving 50% of their initial demands in their negotiations or more demands than Japan, this poses the question, could the individual countries achieve more without ASEAN.

Initial requests and trade deal contents – Indonesia

The Japan-Indonesia trade deal is the most comprehensive deal of all three analysed, it contains the most provisions (Annex 1) and establishes regulations for trade in services, which the other two deals fail to do. As previously stated, both Japan and Indonesia are important to each other economically which should be reflected in the agreement. As we can see in Table 2 Japan and Indonesia had 48 and 49 demands respectively. The demands ranged from tariff elimination, cooperation enforcement, industrial partnership, and mutual recognition. Unlike the AJCEP each countries’ request are quite specific and substantial. Therefore, the establishment of more outcomes from their initial requests than the AJCEP, by both Japan and Indonesia shows the successfulness of this trade agreement. Trade statistics show, an increase in Japan’s exports to

Indonesia from \$9.03 billion in 2007 to 15.1 billion in 2022 (Figure 3), giving it a 67% increase in trade value. Meanwhile, Indonesia’s exports increased from \$23.6 billion in 2007 to \$24.8 billion in 2022 (Figure 4), giving it a 5% increase in export value, increases attributable to the trade agreement.

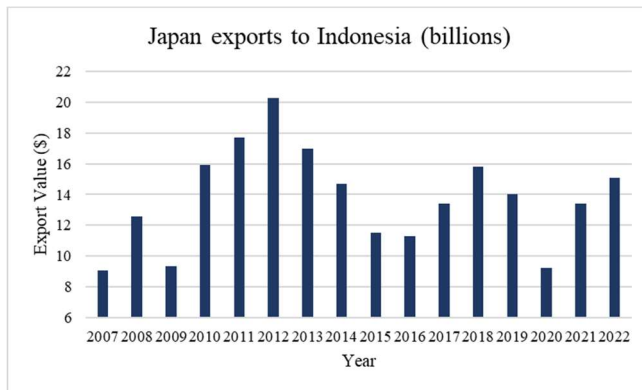


Figure 3: (Japan Exports to Indonesia, n.d.)

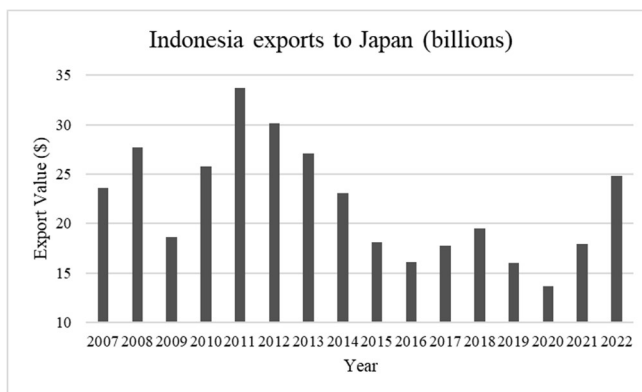


Figure 4: (Indonesia exports to Japan, n.d.)

Table 2 shows how the IJEPA managed to include requests from each country on, tariff elimination, sensitive sector security and services liberalisation. Indonesia places a lot of focus on service sector liberalisation and manages to liberalise multiple services with no restrictions, such as education, construction, maritime and health services. Furthermore, Table 2 shows us how Indonesia has agreed to less immediate liberalisation than Japan has. Indonesia achieved three immediate tariff elimination from its specific requests, organic chemicals, glass products and textiles. When Japan, who still asked for five specific product tariffs to be eliminated, only got electronic and textile tariffs eliminated. However, Japan did manage to protect its footwear industry, a very important global industry, and keep it a sensitive sector even when Indonesia requested immediate tariff elimination.

Overall, this trade deal disproves the neo-regionalism hypothesis, as not only did Indonesia manage to turn more initial requests into outcomes than Japan, but Indonesia also managed to achieve more than ASEAN in the AJCEP. Looking at Table 2 we can see that 67% of Indonesia's requests were approved into the IJEPA, 10% more than Japan. When we compare it to Table 1, 19% more requests were negotiated by Indonesia than ASEAN. The hypothesis claimed that being part of an economic trade bloc gave a country more bargaining power, but it is obvious that Indonesia had more power over Japan as a singular country.

Initial requests and trade deal contents – Malaysia

The MJEPA was the first free trade deal that Malaysia signed overall. It is also the agreement between two countries with the biggest difference in market power, as Japan has had a considerably higher GDP than Malaysia. As this agreement was ratified in 2006 it lacks a lot of provisions that the IJEPA included (Annex 1). Even though the agreement included a chapter on Sanitary measures, while the Indonesian agreement did not, the MJEPA lacked chapters on economic and technical cooperation, and movement of natural persons, two very important measures for a trade environment. In Annex 2 we can also see that the MJEPA agreement made Malaysia eliminate the most tariffs, out of all agreements, within the ten-year schedule of liberation. Although it is Japan's lowest rate of tariff elimination, with 90% of tariffs eliminated, Malaysia eliminated 99% of all tariffs for Japanese products, making the concession rate very high.

Even though there is a chapter in service sector liberalisation, it is a very weak chapter, only addressing "facilitation and cooperation in the service sector" (Table 3) and not much else. This disproportionately hurt Malaysia as it has the largest trade in services output as a product of GDP out of all the countries analysed by this thesis.

Looking at the respective top exports to each country in 2006 (Figure 5 & 6), the year of ratification. Both countries imported various machinery, mineral or metal products. When looking at the tariff elimination rates from Malaysia to Japan most of the top products had their tariffs fully and immediately eliminated under category A, except for motor vehicles under category B7. Making Japanese exportation to Malaysia beneficial and convenient (Annex 1: Schedules in relation to Article 19). In conjunction, plywood and all top petroleum products were Categorized as A by Japan, eliminating all tariffs for Malaysia, even when Japan requested a sensitive sector categorisation and refused technical cooperation in the area (Table 3).

Semiconductor and integrated circuits tariffs were not even mentioned by Japan in the annex, severely hindering trade for Malaysia as this ambiguity could cause disputes (ibid).

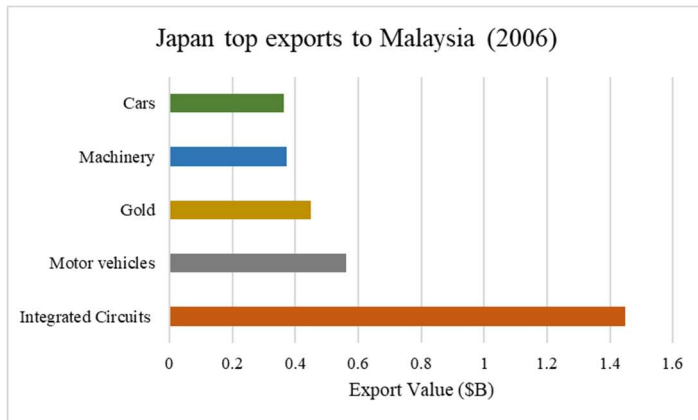


Figure 5: Japan top exports to Malaysia (Japan / Malaysia Trade, n.d.)

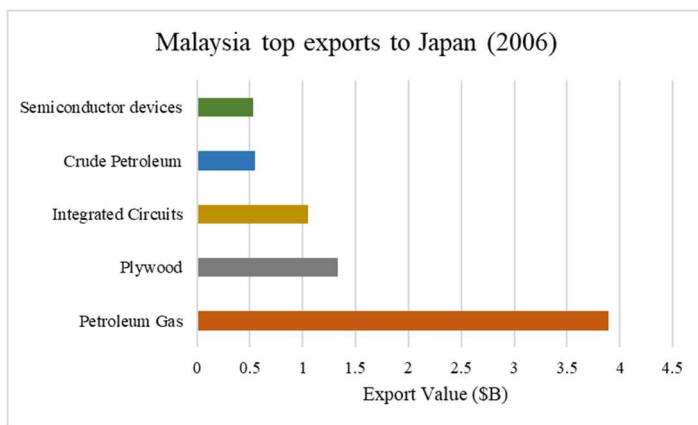


Figure 6: Malaysia top exports to Japan (Japan / Malaysia Trade, n.d.)

Altogether, Malaysia has a higher implementation record than Japan in this trade agreement, Japan had an outcome record of 53%, WHEN Malaysia managed to implement 68% of its requests. It could be argued that Malaysia’s requests were easier to implement as they were simple, ranging from cooperation efforts to efforts to increase partnerships between industries (Table 3), instead Japan made specific tariff reduction and sensitive sector requests. However, an in-depth analysis of this trade agreement does reveal that this agreement severely benefitted Japan over Malaysia, in both tariff elimination schedules, and individual products and in a lack of trade in services and movement of person’s chapter. This case study defies the neo-regionalism theory, as Malaysia achieved more outcomes than ASEAN. Furthermore, even though it can be argued Japan used its market power to exit negotiations better off, Stiller’s (2023) concept of calculating trade deal outcomes to conceptualise bargaining power has been disproven in this case study.

Discussion

As illustrated in the data analysis all three case studies have disproved the theories presented in this thesis. This outcome could be due to a multitude of reasons concerning ASEAN as a regional institution, Japan's decline as a regional hegemon, and Indonesia's and Malaysia's diminished interdependence in Japan.

The thesis must look at the failure of the AJCEP and wonder how ASEAN achieved so little within the negotiations. A consensus mechanism that boasts unanimity in decision making could be detrimental to any type of real cooperation or outcome production. While ASEAN boasts its gradual culmination of cooperation procedures, how does this now help ASEAN move forward for the collective benefit of all its member states. Academics now see ASEAN as "a forum for discussion, its structure precludes it from actually producing a conclusion", which is what could be hurting ASEAN from producing any economic outcomes even with the bargaining power of ten member states (Kawashima, 2016).

Analysing, Indonesia and Malaysia's cases individually from ASEAN it is understood that the theory of neo-regionalism is disproved. Konrad and Cusack (2014) blame membership in organisations to a lack of outcome implementation contrary to single state negotiations. They see the inefficiencies of bargaining as a group due to the lack of preference alignment and unanimity requirements within groups (Konrad & Cusack, 2014, p. 921). The authors conclude that commitment within a coalition requires a lot of work as there will always be one player that give up more than another player, in this case ASEAN countries might not have been willing to make concessions (p. 937). Furthermore, the authors found that when negotiations happen as group instead of a singular player these negotiations are detrimental (p. 923). Indonesia and Malaysia acting as singular players in their negotiations would be better off.

Stiller's method of data collection and bargaining power theory was disproved. Market power did not have an influence in negotiations otherwise Japan would have had a bigger consolidation of their initial proposals in the agreements, over Indonesia and Japan. The implication could be that in a globalized world market power and GDP cannot be the only factors to express bargaining power. Japan's dependence on Indonesia and Malaysia for specific products, like petroleum or auto parts, has given them a bigger bargaining advantage in trade negotiations. Furthermore, Stiller's method of data analysis is insufficient, only calculating requests implementation would show Malaysia unequivocally better off in the

agreement, while further research into the trade deal shows how Japan managed to get better tariff rate concessions and chapter implementation.

Conclusion

The hypothesis of this thesis claimed that membership of a regional organisation had a positive effect on bargaining power. Case studies around ASEAN did not find a positive effect, showing how negotiating with ASEAN was detrimental to bargaining power, versus individual negotiations. The implications are that the recent advent of regional institutions has been corrosive to the bargaining power of smaller states. While this is the case with ASEAN, I do not believe this conclusion can be generalisable to other cases. ASEAN is a unique organisation in a region with specific conditions to economic partnership. Furthermore, external causes like Japan's position as a regional hegemon, that now must contend with a superpower like China affects the unusualness of this case. A strength of this research stems from the it's ability to fully analyse trade deals, initial requests and agreement outcomes and then linking them all together, something that is not present in the current field of literature. Further research should focus on expanding to other regional organisations such as the African Union and MERCOSUR as it would be interesting to see how the regional context that institutions find themselves in also affects bargaining power.

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Appendix 1: Additional Tables

Category	Topic	Chapter in the Agreement		
		AJCEP	IJEPA	MJEPA
Initial Provisions	Initial Provisions and General Definitions	Chapter 1	Chapter 1	Chapter 1
Trade in Goods	Trade in Goods	Chapter 2	Chapter 2	Chapter 2
	Rules of Origin	Chapter 3	Chapter 3	Chapter 3
	Customs Procedures and Trade Facilitation	Chapter 2 Article 22	Chapter 4 Article 54 & 56	Chapter 4
	Sanitary and Phytosanitary Measures	Chapter 4	-	Chapter 6
	Trade Remedies	-	-	-
Trade in Services	Trade in Services	-	Chapter 6	Chapter 8
Movement of People	Temporary Movement of Natural Persons	-	Chapter 7	-
Investment	Investment	-	Chapter 5	Chapter 7
Business Environment	Intellectual Property	Chapter 8 Article 53*	Chapter 9	Chapter 9
	Electronic Commerce	-	-	-
	Competition	Chapter 8 Article 53*	Chapter 11 Article 126 & 127	Chapter 9 Article 124
	Small and Medium Enterprises	Chapter 8 Article 53*	-	-
	Economic and Technical Cooperation	Chapter 8	Chapter 8 Article 104 & 122 Chapter 13	-
	Government Procurement	-	Chapter 10	-
General Provisions and Dispute Settlement	General Provisions and Exceptions	-	Chapter 9 Article 106	Chapter 9 Article 112
	Institutional Provisions	-	-	-
	Dispute Settlement	Chapter 9	Chapter 14	Chapter 13
	Final Provisions	Chapter 10	Chapter 15	Chapter 14

Appendix 1: Chapters of the AJCEP, IJEPA, and MJEPA Agreements

	AJCEP	IJEPA	MJEPA
ASEAN	93	-	-
Japan	92	94	90
Indonesia	91	93	-
Malaysia	94	-	99

Appendix 2: Tariff Concession Rates, AJCEP, IJEPA, and MJEPA Agreements (%)