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Regional cooperation for improvement of trade procedures: The case of Japan

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Acronyms

ARTNeT	Asia-Pacific Research and Training Network on Trade
BPA	Business Process Analysis
EPA	Economic Partnership Agreement
GSP	Generalized System of Preferences
IDRC	International Development Research Centre
JCTB	Japan Customs and Tariff Bureau
JETRO	Japan External Trade Organization
JTA	Japan Tea Association
JTIA	Japan Textiles Importers Association
LDC	Least Developed Country
LPI	Logistics Performance Index
METI	Ministry of Economy, Trade and Industry
MHLW	Ministry of Health, Labour and Welfare
MFN	Most Favoured Nation
OECD	Organisation for Economic Co-operation and Development
SME	Small and Medium-sized Enterprise
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
US	United States
USD	United States Dollars
WTO	World Trade Organization

Introduction

The volume of trade worldwide has increased as various trade barriers have been removed over time. Tariffs are one of the trade barriers that trading countries have made efforts to reduce. Tariff rates are determined based on the category that trade partners belong to. There are six possible categories for classifying trade partners: General, Temporary, World Trade Organization (WTO), Generalized System of Preferences (GSP), Least Developed Country (LDC) and Economic Partnership Agreement (EPA).[1]

Tariff rates provided under the GSP are lower than Most Favoured Nation (MFN) tariffs, which are applicable to the members of the WTO. The rates for EPA countries are lower than MFN tariff rates, but are higher or lower than GSP rates, depending on the trade status of the EPA country or the area that the EPA countries belong to.

Table 1. Tariff rates in Japan for coffee and tea, %

		General	Temporary	WTO (MFN)	GSP	LDC
Coffee	Not-roasted	0		0	0	0
	Roasted	20		12	10	0
Tea	Green tea	20		17		0
	Brown tea	5		3	2.5	0
	Mate	20		12	6	0

Source: Ministry of Finance, Japan, April 2010

Since the 1990s, although tariff rates have not changed much in the member countries of the Organisation for Economic Co-operation and Development (OECD), imports have increased in those countries. This is at least partly because, as argued in spatial economics and international economics, intra-industry and intra-firm trade have increased, through the process of fragmentation. In other words, final goods are not produced within a single country from the beginning until the end of a production process. Intermediate products or components that are used in the production of final products are produced in various countries in accordance with comparative advantages. These components are traded and the final product is built in the location where the comparative advantage exists for this final phase of the production process. The final products are eventually traded or consumed within that production area. According to Wakasugi (2007), in almost all manufacturing industries in Japan, the rates of outsourcing (*gaibucyoutatsuhiritu*) increased in the 1990s, except for steel and non-ferrous metals.

Other than tariffs and traditional non-tariff barriers, other trade costs are involved in trading across borders. For example, De (2009) estimated transportation costs among East, South-East and South Asian countries, both for exporting and importing, and found

[1] GSP was initiated in Japan in 1971 and currently 140 countries are recognized as beneficiaries of GSP. Among those, 49 countries are categorized as LDCs.

that transportation costs vary by partner and that these costs are significant with regard to other trade costs. Other costs include the costs of documentation, costs related to various types of risks and costs emerging from regulations, handling fees etc., in addition to taxes.

When trade costs are examined by region, it seems that the East Asia and Pacific region is the cheapest in terms of the cost per container and requires the shortest amount of time for both importing and exporting. The importance of the above-mentioned factors differs by country and by commodity, however.

In Japan, the transportation equipment industry has shown the highest rate of intra-firm trade. It is worth noting that if this industry is compared with other industries or with small intra-firm transactions, the timelines and costs for each process might differ. It is necessary to closely follow the trade process for each commodity in order to capture the importance of each procedure in trade. The focus of this study is therefore to examine the trade procedures involved in the processes of importing and exporting certain products to and from Japan.

Conventional trade facilitation practice and discourse rely much on addressing the high costs of transportation. With the increase in international and regional trade, the facilitation of trade has had to include initiatives to improve simplicity and transparency in customs procedures as well as the efficiency of port logistics, harmonizing product and technical standards with international or regional regulations, and the usage of advanced information technology for coordinated actions across ministries and departments as well as with other stakeholders.[2] The costs of trade are therefore important not only in terms of transporting a product across an international border, but also regarding the required time and the level of barriers or difficulties encountered when delivering a product to a customer. Administrative or procedural qualities such as a lack of transparent regulatory frameworks, cumbersome customs procedures or a low level of human capital are equally capable of increasing transaction costs.

How much does the whole import or export process cost? Which procedures require the most time? This study attempts to provide answers to these questions, taking into account the fact that trade costs and time differ from product to product because laws and regulations are item based. Trade costs and time also vary depending on the size of producers or buyers as these are affected by economies of scale.

The following four trade processes were identified for detailed study: the export of auto parts from Japan to China, the export of used cars from Japan to Sri Lanka, the import of textiles and apparel from China, and the import of tea from Sri Lanka.

[2] Wilson, Mann and Otsuki 2004.

Box 1: Overview of the import and export processes of Japan

In Japan, both export and import flows are regulated by customs at the point of exit or entry, according to the general practices and regulations of the Customs Department.[3]

In order to export products, traders need to submit the following documents to customs in order to obtain export permits: an export declaration form (C-5010), an invoice and other supplemental documents as required by the product-related laws and regulations.

All in all, 15 laws and regulations exist in relation to the export process. The ten that are most important are as follows: (1) Export Trade Control Order, (2) Export Exchange Control Order, (3) Export-Import Trading Law, (4) Law for the Protection of Cultural Properties, (5) Forest Seeding Law, (6) Law Concerning Wildlife Protection and Hunting, (7) Narcotics and Psychotropics Control Law, (8) Cannabis Control Law, (9) Opium Law and (10) Stimulant Drug Control Law.

Likewise, when importing products, the relevant import permit must be obtained. In order to acquire said permit, the following documents are required by customs: (1) an import declaration form, (2) an invoice, (3) the Bill of Lading or airway bill, (4) the certificate of origin (5) packing list, freight account, insurance certificate, (6) detailed statement of reductions of or exemptions from customs duties and taxes (when those are applicable), (7) customs duty payment slip and (8) licenses and certificates for certain products that have legal trade restrictions. For restricted items, there are specific laws and regulations that differ from the Customs Law for general items. In such cases, additional applications or procedural steps may be required to pass the necessary inspections or to acquire the necessary supplementary permits. There are four groups of laws and regulations other than the Customs Law, namely the Foreign Exchange and Foreign Trade Control Law, the laws and regulations related to banned goods (such as those related to firearms, poisonous and harmful substance control, fertilizer control, chemical substances, high pressure gas, etc.), the laws and regulations concerning quarantine, and the laws and regulations concerning narcotics and such.

For these trade processes, electronic data interchange is applied in order to facilitate transactions based on the standardized system. Importers and exporters can apply for a standard code online, which can be applied for facilitating procedures at customs. At the same time, this code is utilized for other surveillance systems and it is shared with stakeholders of trade procedures such as warehouse and logistic companies, banks, air carriers and shipping companies. Although the initial application stage seems to require