

Shinkai, Naoko; Bashaw, Zenebe

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

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

by

*Naoko Shinkai**

*Zenebe Bashaw***

* Ms. Shinkai is an associate professor, Graduate School of International Development, Nagoya University, Japan and **Mr. Bashaw is an International Advisor, Market Development, Swiss Foundation for Development and International Cooperation. Authors are grateful to Mr. Yann Duval, ESCAP for his distinctive guidance and constructive comments, Mr. Prabir De, RIS, India for comments as well as comments from anonymous referees and participants to the ARTNeT Research Team Meeting on Improving Regional Trade Procedures, 4 October 2010 in Kuala Lumpur are gratefully acknowledged. This work was carried out with the aid of a grant from IDRC, Canada and is part of an ARTNeT Trade Facilitation Study on Improving Regional Trade Procedures and Process. The support of the United Nations Economic and Social Commission for Asia and the Pacific is gratefully acknowledged. The opinion figures and estimates are the responsibility of the author and should not be considered as reflecting the views or carrying the approval of the United Nations, ARTNeT, Nagoya University and Swiss Foundation for Development and International Cooperation. Any errors are the responsibility of the authors, who can be contacted at nshinkai@aol.com and zbashaw@gmail.com

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Introduction

Trade volume in the world has increased over time as various trade barriers have been removed. Tariffs are one of the trade barriers which trading countries have made efforts to reduce. Tariff rates are determined based on the category which trade partners belong to. There are 6 possible categories for classifying trade partners: General, Temporary, World Trade Organization (WTO), Generalized System of Preference (GSP), Least Developed Country (LDC), and Economic Partnership Agreement (EPA).¹

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

Tariff rates provided under GSP are lower than MFN tariffs applicable to the WTO members. Then, those rates for EPA countries are lower than MFN tariff rates but higher or lower than GSP rates, depending on the trade status of EPA country or the area where EPA countries belong to.

Since the 1990s, although tariff rates have not changed much in the OECD countries, import of those countries increased. This is at least partly because, as argued in spatial economics and international economics, intra-industry and/or 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 used in a production of final products are produced in accordance with comparative advantages. Then, intermediates or components are traded to build the final product in the location where the comparative advantage exists for this final phase of a 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.

In trading across borders, there are trade costs involved other than tariff and traditional non-tariff barriers. For example, De (2009) estimated transportation costs among East, South-East and South Asian countries for both export and import separately.

¹ GSP was initiated in 1971 in Japan and currently 140 countries are recognized as the beneficiaries of GSP and among those 49 countries are categorized as LDC.

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

When trade costs are examined by region, it seems that East Asia & Pacific is the cheapest in terms of the cost per container and shortest in terms of time spent for both import and export. However, the importance of the abovementioned factors differs by country and by commodity. As mentioned above, Transportation equipment has shown the highest rate of intra-firm trade in Japan. It is due noting that if this industry is compared with other industries or with small intra-firm transactions, the timelines and costs per 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 underlying focus of this study is therefore to examine trade facilitation during import and export of products to and from Japan.

Conventional trade facilitation practice and discourse relied much on addressing high costs in transportation. With the increase in international and regional trade, the facilitation of trade had to include initiatives to improve simplicity and transparency in customs procedures. Also, the efficiency of port logistics, harmonized product and technical standards with international or regional regulations, and the advanced usage of information technology for coordinated actions across ministries and departments as well as other stakeholders is included in modern trade facilitation (Wilson, Mann, and Otsuki 2004). The costs of trade facilitation 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 while delivering the product to a customer. Administrative or procedural qualities regarding the lack of transparent regulatory frameworks as well as cumbersome customs procedures and the low level of human capital are equally capable of increasing transactions costs.

How much does the whole import or export process costs? 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 product by product since the laws and regulations are item based. The abovementioned factors may also depend on the size of producers or buyers since transportation is affected by the advantages or disadvantages conferred by the economies of scale. The following four trade processes were therefore identified for a more detailed study: export of auto parts to China from Japan, export of used cars to Sri Lanka from Japan, import of textile and apparel from China to Japan, and import of tea from Sri Lanka to Japan. The study relies on primary data collected through interviews of companies, individuals, government officials and experts directly involved in the import-export processes.

Import and Export Process of Japan - Overview

Both export and import flows are regulated by Customs at the point of exit or entry into Japan, according to the general practices and regulations of the Customs (Ministry of Finance, Customs 2010). In order to export products, producers or traders need to submit the following documents to Customs in order to obtain export permits, such as (1) an Export declaration form (C-5010), (2) an Invoice, and (3) Other supplemental documents if related laws and regulations require them. All in all, 15 different laws and regulations

exist in relation to the export process: (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, (10) Stimulant Drug Control Law etc.

Likewise, for importing products the relevant import permits 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 landing or Airway bill, (4) the certificate of origin (where WTO rates are applied), (5) the certificates of origins regarding the Generalized system of preferences (where preferential rates are applied), (6) relevant Packing lists, freight accounts, insurance certificates, (7) Licenses, certificates for certain products which are restricted under laws, (8) Detailed statement of reductions of or exemptions from customs duties and taxes (when those are applied), and (9) customs duty payment slips.

Among imported products, there are some restricted items. For those items there are specific laws and regulations which 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 4 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. It is also worth mentioning that for the earlier mentioned trade procedure, electronic data interchange is applied in order to facilitate transactions based on the standardized system.. Importers and exporters can apply for the 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 stake holders of trade procedures such as warehouse and logistic companies, banks, air carriers, and shipping companies. Although the initial application stage seems to require some administrative procedures and waiting time before receiving an approval, the online application procedure has been simplified since April 2010. Once the code is obtained, it will be in force for the next three years with no additional inquiries.

After the export or import permits are issued, the goods are taken out from the designated areas of the warehouse and carried into their final destinations.

Study Methodology

The interviewed companies were selected in a manner that they conform to the indicators used in Doing Business by the World Bank to some extent. Thus, indicators such as being fully domestically owned, having an export/import ratio of more than 10% of sales, and not being located in an export processing zone have been taken into account. However, for one of the products of our study, tea, we included one Small and Medium Enterprise (SME) to identify the existing barriers, if any, to SMEs in trade facilitation. In terms of company locations, the companies are mostly located in the city near ports with the largest trade volumes or the largest trade values in Japan, such as Yokohama and

Nagoya. Thus, the companies do not necessarily reside in the largest cities in terms of their economy. In case of Auto parts, most companies are located near Toyota-city, next to or around Nagoya due to its supply chain provision for the large Automobile companies operating in the region. Regarding time for trade process, the required time from the initiation of business trading until the completion of loading products at the port is taken into account

The time spent for the business negotiations from the initiation of a deal to the closing may vary depending on the types of products and the production systems used by the respective firms. Although this stage is not a part of the time of the trade process with regard to World Bank Doing Business, we have integrated this stage into our study in order to assess the possible product-dependent diversification as much as possible. In addition, the days required for international transportation are reported in a summary table of time to trade (Table 3) in order to grasp the whole picture of the trade process including domestic as well as international variation in the procedures. All the documents required for trade process described above are taken into account. The study also conducts an analysis of secondary sources taken from a literature review and other statistical data.

Availability of Trade Data for the Products Studied

The export process in this study covers auto-parts and used cars from Japan to China and Sri Lanka, respectively. The import process focuses on textiles from China and tea from Sri Lanka to Japan. Auto parts cover an extensive range of products that are directly used in the manufacturing or assembly of cars. They include the body, the exterior parts, the electrical parts, the electronics, the interior parts, the power train and the chassis, and other miscellaneous parts. Because a complete and disaggregated account of all the items is an endeavor which is difficult, time-consuming and beyond the scope of this study, aggregate data of auto parts by region and country is available only for recent years. In addition, the data is compiled only from member exporters which, although not fully represent major manufacturers and exporters of auto parts in Japan².

The same applies to used cars as associations of exporters of used cars maintain data collected from members. The Japan Customs and Tariff Bureau (JCTB) also provides data on exports of used cars across destination countries. However, a careful analysis of the data is necessary, since some of the destination countries ranked as high importers of Japanese used cars are in fact not actual importers of used cars, but rather serve as transit ports for other countries. Data is available from 2002 to 2008, showing the number of used cars ranging from light vans to utility cars, buses, and trucks. However, not all used cars for exports are Japanese-made since the category, also includes cars manufactured and imported to Japan, such as Volkswagen, BMW, Ford, and Mercedes Benz, although these products are not large in volume.

Imports of textiles to Japan have been dominated by Asian countries and in

² Japan Auto Parts Industries Association (JAPIA), established in 1969, compiles and disseminates data on auto parts production and export from its regular and associate member companies. As of 2010 there were 444 members of JAPIA. <http://www.japia.or.jp/index.html>

particular by China. Data compiled since early 1990s by the Japan Textiles Importers Association (JTIA) represents 80 member importers as of May 2010³. Textiles include either natural fibers or regenerated/synthetic fibers. Generally, they constitute items made of silk fibers (for example, anaphe, silk, and byssus), fur (including wool, cashmere, angora etc), seeds (cotton, kapok and akund), and bast fiber (flax, linen, hemp, ramie etc).

Data for tea imports are available from JCTB. Supplementary data is provided by the Japan Tea Association (JTA). The Japan External Trade Organization (JETRO) maintains extensive disaggregated databases on tea imports. The Ministry of Finance of Japan classifies tea either as black tea (HS-code 0902.10, 0902.20-2), green tea (HS-code 0902.10, 0902.20-2) or other tea (HS-code 0902.30-09, 0902.40-22). Tea can be non-fermented or partially fermented, and data form JETRO follows this classification for packed black and green tea for packages of 3 kg and below. The data cover two decades of tea imports from 1990 to 2010.

Summary of Findings

Export of Auto Parts

This study focuses on one large-scale exporter of spare parts. Established in mid-1930s, this company expanded its business with the acquisition of a number of small-scale machine and spare part makers in Japan. The auto parts industry is an important factor in automobile manufacturing which is evidenced by the company's close to 70% share of the value-added in automobile manufacturing (Kobayashi 2003). According to interviews conducted with representatives of the company, the trade in spare parts showed large volumes of exports to Asian countries and mainly to China starting from the 1990s. The main factors behind this trend included the appreciation of the Japanese yen, sluggish domestic market, fierce competition for automobile market and the need for aggressive production cost cutting for 'lean production', and the search for low cost labor. These trends brought in a further shift in location of production to overseas plants particularly in Asian countries and other transitional economies. Outsourcing of cost-effective low-added auto parts also followed. Therefore, the importance of trade facilitation in expediting smooth and cost effective procedures was highlighted during the interview.

China occupies an important market after the gradual opening of Chinese domestic market to Japanese automobile and auto parts manufacturers. The share of export in auto parts has shown continuous positive growth, inducing major Japanese automobile and auto parts manufactures to expand their business. For example, the share of Japanese auto parts export to China was 7.5% in 2000 and it increased to 8.2% in 2001. In the same period only the United States and Germany were ahead of Japan with respect to the share of auto parts export to China.⁴ In 2003 total export of Japanese auto parts grew by 9% (Mori 2004). In 2002, there were 23 new auto parts makers registered in China which was equivalent to the number of auto parts makers expanding their business to the US.

The financial crisis of 2008 and its impacts on major automobile makers in North

³ Japan Textiles Importers Association (JTIA) <http://www.jtia.or.jp/meibo/meibo.htm>

⁴ Authors' calculation from Annual Japanese Trade Statistics.

America and the subsequent concentration of Japanese exports to China as a result of strong economic growth of China seemed to drive exports of auto parts. For example, exports rose 67.7% in 2010 driven by high demands mainly in China.⁵ As a corollary, this is assumed to speed up the relocation of production to China, which, in turn, may broaden imports of auto parts from China to Japan. It appears that there is a trend in which most automobile manufactures, with the exception of sophisticated and high quality auto parts only available in Japan, outsource auto parts to local manufacturers in China (Inagaki 2002).

The study found out that domestic trade facilitation in Japan regarding exports in spare parts showed improvements in reducing government-related transaction costs arising from Customs duties, port charges, and port storage expenses. However, it was pointed out that pre-export document submission and actual customs inspection are still not transparent. This is taken as one reason for delays in delivering items based on contracts endorsed by the exporter and customers in China. The introduction of the Kanban system by customers of automobile manufactures based in China necessitates that the goods arrive in time. Longer lead-time disrupts manufacturing lines of customers, and this has for some time been a bone of contention in the spare parts export industry.⁶

With regard to the trade procedure, customers have to submit the documents outlining the details of the product, its purpose of usage, and in the case of sensitive materials the final destination and means of transportation as well, at the beginning of the business deal. The production of auto parts is often outsourced but this procedure applies nevertheless. Procedures in exports were computerized with automated information processing with which data on specification, model, price, trends in orders and others of items is maintained. However, this improvement has not yet been able to tackle the delays of actual delivery which also arise from the delay from contracting manufacturers to deliver items on time in addition to their unwillingness in submitting supplementary documents (for example, catalogues, designs) to customers for the fear that sensitive information may be leaked. The unreliability of the supply chain incurs costs and these costs together with direct costs of freight, port and handling charges, agent fees, and side payments constituted some of the underlying challenges inhibiting smooth trade facilitation.

Export of Used Cars

One of the most important factors expanding used car exports from Japan to a number of countries is the cost of owning and maintaining a car in Japan. First, an owner has to pay car safety inspection fee (*shaken*). Depending on the car type and origin (Japanese-made or imported car), the average fee can reach 1,500 United States Dollar per car. Second, the longer a car owner owns a car, the higher the inspection costs are. New car owners have to incur the cost for inspection after three years of the purchase of the car, and payment for safety inspection will start every two years after three years of purchasing a car. Third, the value of old cars depreciates fast and disposing/scraping the car is also costly.

⁵ Thailand and the Czech Republic also attracted 15 and 7 auto parts makers in 2002, respectively. Japan Auto Parts Industries Association (2002). *Kaigai jigyou gaiyou chousa hokoukusho*, p. 3

⁶ Telegraph (2010). 'Japan's exports surge for fifth month', May 27th, <http://www.telegraph.co.uk/finance/financetopics/financialcrisis/7770054/Japans-exports-surge-for-fifth-month.html>

Car owners must also meet paying different taxes for owning a car. These include acquisition taxes, weight taxes, and an annual automobile tax. Also, owning a car requires that a parking lot (*shako shomei*) is secured. Above all, car owners are obliged to have insurance coverage (*kyosei hoken*) that extends insurance to damages from traffic accidents. Car owners need to buy insurance for traffic accidents as well (*jibaiseki hoken*).

Due to the regular inspection and maintenance of cars in Japan, most used cars tend to be in a good condition. This seems to maintain high demand for exports of used cars from many countries. The presence of auction centers where members can purchase and export used cars creates good business chances for many Japanese and non-Japanese exporters. New models with attractive deals as well as fuel-efficient cars increase the turnover of used cars. The introduction of the recent 'cash for clunkers' economic incentive for car owners to buy more fuel-efficient and 'environmentally friendly' cars when trading in a less fuel-efficient old car also appears to facilitate the used car business.

A number of countries where large segments of the population cannot afford to own a new car rely on the supply of Japanese used cars. Sri Lanka has been one of the major importers of used cars from Japan. Table 2 shows the top 15 Japanese used car importers from 2002 to 2008. From 2002 to 2006, Sri Lanka was in the top ten importers of Japanese used cars. However, the share of car imports dropped dramatically after 2006. One reason for this was the prohibitive duty tax imposed by Sri Lanka on used cars, which can be as high as 200% (excluding heavy trucks)⁷.

The related interviews were conducted with two exporters of used cars from Nagoya to Sri Lanka. Accessing reliable and complete information from exporters was difficult due to suspicion of the motives of this research.. Building trust and gaining the willingness of interviewees took a long time and required intensive negotiations. Used car export business is undertaken mainly by non-Japanese business people who either work under a Japanese sponsor, or run their own business through leasing land widely known as 'yards'. These yards have been frequent targets of police investigation on the ground that they harbor or hire illegal foreign residents who overstayed their visa permits.

Reports of high demand stolen cars (for example, Toyota Hiace, a minibus) led to stringent inspection of pre-arrival documents and actual shipments from Japan. One way of addressing the difficulty was taken up by a number of businesses operated by foreigners which resorted to paying large sums to cooperate with Japanese nationals involved in similar business.

Operators face the difficulty of owning facilities and plots of land for loading and unloading cars onto trailers and trucks. Also, driving the used cars for export to the port of departure with a temporary license pose difficulties is costly both in terms of time and resources (fuel, labor). It is inefficient and laborious particularly when exporting large number of cars.

⁷ Source: Government of Sri Lanka, <http://www.customs.gov.lk/mv.htm>. This was also stated by used car importers from Japan (Interview in Nagoya, June 2010)

Transaction costs are the highest for used car trades – both in terms of the direct and indirect costs. The direct transaction costs include costs associated with collecting, producing, transmitting, posting, faxing and processing information required to prepare and submit documents. Direct costs are fees paid for setting up and financing customs bonds and guarantees. The risks involved in running used car business and the sometimes complicated/unpredictable regulations force dealers to ask customers to post high advance payment during the purchase and shipment of goods. Some cases were identified where buyers had failed to transfer money after the shipment of the goods, claiming that customs regulations in the destination country cost importers to pay higher duties than expected, or that the specifications given during the quotation process did not match the actual goods received.

Recommendations for improving the trade facilitation process include ensuring consistent enforcement, mechanisms for corrections and appeals in case traders believe that they are receiving unfair treatment, risk management and trader authorizations, avoidance of duplication in pre-arrival documentation and inspection, and trade consultations with regard to freight and air transportation.

Table 2. Ranking of major importers of Japanese used cars (2002-2008)

Rank	2002	Rank	2003	Rank	2004	Rank	2005	Rank	2006	Rank	2007	Rank	2008
New Zealand	125,014	New Zealand	125,014	United Arab Emirates	143,780	Russian Federation	268,685	Russian Federation	389,921	Russian Federation	389,921	Russian Federation	563,369
United Arab Emirates	87,612	United Arab Emirates	87,612	New Zealand	134,802	New Zealand	132,645	United Arab Emirates	116,981	United Arab Emirates	122,521	Chile	123,944
Russian Federation	42,727	Russian Federation	42,727	Russian Federation	122,139	United Arab Emirates	113,823	New Zealand	96,227	New Zealand	101,238	United Arab Emirates	98,204
Peru	33,870	United Kingdom	33,870	United Kingdom	57,045	Chile	47,491	Chile	60,559	Chile	96,844	New Zealand	59,090
United Kingdom	29,612	Philippines	29,612	South Africa	37,878	United Kingdom	31,967	Kazakhstan	47,069	Kenya	41,347	South Africa	47,797
Philippines	24,816	Peru	24,816	Philippines	32,594	South Africa	31,415	Pakistan	37,512	South Africa	38,715	Kenya	40,546
Sri Lanka	20,866	Sri Lanka	20,866	Chile	27,413	Philippines	21,497	South Africa	31,049	Peru	28,621	Peru	31,790
Cyprus	18,914	South Africa	18,914	Peru	21,837	Peru	19,522	Peru	28,889	Philippines	27,401	Bangladesh	29,256
Jamaica	18,214	Cyprus	18,214	Cyprus	20,136	Kenya	18,322	Sri Lanka	25,786	Singapore	24,669	Mongolia	26,256
South Africa	14,101	Jamaica	14,101	Sri Lanka	18,918	Sri Lanka	17,550	United Kingdom	24,369	United Kingdom	24,270	Singapore	26,078
Australia	13,748	Chile	13,748	Kenya	16,949	Malaysia	17,544	Kenya	24,187	Pakistan	21,576	Uganda	22,682
Bangladesh	13,070	Kenya	13,070	Jamaica	15,922	Kazakhstan	16,970	Philippines	22,920	Bangladesh	18,496	Malaysia	21,622
Trinidad and Tobago	11,521	Trinidad and Tobago	11,521	Thailand	14,769	Australia	14,177	Singapore	19,028	Malaysia	18,423	Philippines	19,939
Kenya	11,351	Malaysia	11,351	Malaysia	11,521	Cyprus	12,708	Bangladesh	14,288	Mongolia	17,802	Tanzania	16,359
Malaysia	10,717	Thailand	10,717	Australia	10,817	Pakistan	11,780	Mongolia	13,486	Uganda	16,761	Surinam	16,020

Source: Japan Customs and Tariff Bureau (JCTB)

Import of Textiles

The Japanese textile industry has been facing two main challenges for quite a long period of time. First, it has been confronted with rising wages and the difficulty of finding relatively young labor for the industry. Second, it has also been searching ways to overcome fierce competition both at home and abroad. This is also accompanied by inefficient government subsidies to the textile industry (Yamazawa 1993)¹⁰. In fact, the textile industry in most developed countries was in prolonged 'structural depression' starting from the 1970s. The United States, Germany and Great Britain attempted to increase mass production to resuscitate the industry, while Japan and Italy shifted to specializing in fashions and household industrial textiles (McNamara 1995).

Japanese textile producers have for years been investing in Chinese markets for producing textiles and secondary products. Cheap labor, geographical proximity, domestic production of raw material in China, and enhanced local skills elevated the status of China as the largest clothing exporter and the second largest textile exporter of the world. Since 2002, China has replaced the United States as Japan's top trade partner in terms of imports. Specifically to the textile industry, Japan is now the fourth largest importer of textile after the EU, the United States and Hong Kong. China has been the top exporter of textiles to Japan since mid-1990s. Data from the Japan Textiles Importers Association (JTIA) shows that from 1999 to 2003, China accounted for 35.1% of the total imports of textiles to Japan, which was more than twice the total import from the top ten textile exporting countries to Japan during the same period.

Three importers of textiles from China were interviewed in Tokyo and Yokohama. Company D was highly involved in producing garments by establishing factories in China, while Company I is in the process of setting up a factory in China in addition to its current importation of ready-made clothes from China. Company M only imports large quantities of clothes from China. Compared to Companies I and M, Company D's share of textile imports to Japan is only 10%, the bulk of its exports being directed to the United States. Goods are usually sent from China to Japan through a courier service. There is intense competition particularly between Companies I and M, and a decline in profits from the textile industry adds the urgency to look for more efficient value chains in the business. It also calls for cutting costs particularly arising from buying items in China and transportation. Interviewed companies stated that transportation cost remains the largest expenditure of their trade.

There was a consensus that domestic trade facilitation procedures in Japan showed improvements, even though officials from Company I stated that they were required to submit from time to time detailed documentations regarding the specifications and models of clothes that they import from China. The induced costs arising from procedures in trade facilitation are by far less than the direct costs incurred for transport operators, freight forwarders, customs brokers, banks and finance companies, insurance companies, and port operators.

Incompatibility of procedures and regulations between Japanese and local Chinese trade facilitation was more evident in the textile business. This, according to the interviews, caused conflicting interest between importers and local business. For companies producing textiles in China and importing to Japan, the issue of changing and unpredictable environmental regulations was cited as one cause of institutional barrier in

trade facilitation. In addition, the non-existence of labor laws and the recent rise in strikes by workers disrupts the supply chain, leading to delays in shipments of orders from Japan.

Recommendations from textile traders include standardization of documents and electronic data requirements, operational flexibility, alignment of procedures and adherence to international conventions, automation and single window for all trade facilitation procedures, and clarification and predictability of regulatory categories in operating country.

Import of Tea

Tea consumption has been a major part of Japanese culture for many years. In terms of trade, tea in Japan was one of the high-value commodities besides raw silk, pottery, and sardines (Yasuba 1996). Previous studies showed that tea served as the basis for the growth of semi-manufactured goods (Ohkawa and Rosovsky 1960).

Japan places strict rules and regulations for importing agricultural products such as tea. Importing tea requires plant quarantine inspection certificate for the purpose of attesting absence of 'noxious insects'. There is also a need for mandatory phytosanitary submission to the requirement for submission to the Ministry of Health, Labor, and Welfare of Japan. The data from the Ministry of Health, Labor and Welfare of Japan for selected years shows that no record of violations was found for imports of tea from Sri Lanka¹

Regarding tea importers from Sri Lanka, two importers, one from Tokyo and one from Nagoya were interviewed. Company R in Tokyo is one of the popular importers of Sri Lankan tea and Company L in Nagoya is a family-run business with a small shop and café. Its import from Sri Lanka consists of a major part of total import, but it is considered as one of the SMEs. Both companies spend a relatively long period for selecting and buying tea products due to the characteristics of the product itself. Tea is a seasonal product and each type of tea is available during certain periods. The buying period reflects climate conditions and it varies by year. For example, Uva tea is available between June and September but the best Dimbula tea is harvested in January and February. Tea is generally obtained through auctions. Prior to purchasing, several samples are collected by importers. Acquiring samples does not take so much time. However, the procedure of selection of tea by comparing the quality of tea from different seasons and regaining samples might take 1 month to 1.5 months. Packaging has been improving a lot and international financial transactions are not an issue for importing tea. Although the buying procedure is quite similar for most of the companies, some differences seemed to occur depending on the size of the company and the location of port.

International transportation by ship takes 4 to 14 days longer when loading is conducted not by container but by container-sharing. Container-sharing also adds up more days in the process of unloading. On the other hand, a small cargo seems to have a slight advantage by air in terms of handling, but almost no difference is found. International transportation involves administrative procedure in addition to cargo handling, such as obtaining permits, clearing customs, sanitary inspections, etc. The time and cost spent for this administrative procedure varies quite a lot by port. At Nagoya port, the distance from the warehouse to the administrative unit is not short for some piers. On the other hand, air cargo is handled almost at one point and documentation and inspection are done by one

1

stop at both Narita, Tokyo and Central Japan International Airport, Nagoya. Similar to other products, inspection process of tea is unknown beforehand. However, this does not appear to be a major disturbance of trade. Those SMEs, which do administrative work by themselves, one stop service is longed for. For those companies, which outsource the administrative procedure to customs brokers in Japan, the difficulty lies in the feature of the product itself, quality control. Recommendations from tea importers are one-stop-service and single window at the port and facilitation of knowledge expansion and stronger support functions of electronic registration system.

Comparison of Time to Trade across Products

So far, trade process has been reviewed only by product. The time spent for trade process is summarized in Table 3 below. What is noticeable here is that a huge difference in time for “Port terminal handling” and “Customs and inspections” appears with relation to the size of the firms. A small company (Company L2) has difficulties at port since it does not have its own storage space and plus its traded goods are loaded as compound goods. At the same time, a small company does not have much advantage at customs either since custom brokers are not always available to assist SMEs. Recent initiatives of online application for registration of importers and exporters could reduce said disadvantage with regard to the varying size of the firms. However, SMEs would require comprehensive support at the time implementation of the changes in the system and this issue has to be thoroughly taken care of to remove barriers to small importers and exporters.

When these figures are compared to the Doing Business data by the World Bank for Japan, the figures in Table 3 are longer than those reported in the Doing Business data, which are 10 days to Export and 11 days to Import. This is partly because, our figures in Table 3 include the days required to negotiate the business deal on products as a part of the “Buy process”. These negotiations include, inter alia, inspections of the quality of products by ordering samples from overseas, selections of products, and internal decision making processes required to initiate the business deal in that fiscal year and so on. The time spent can vary by the business strategy of companies and also depending on the period of the business transactions. This “Buy” stage for one food item, Tea, may involve prior inspection processes for laboratory testing. This process is certainly optional to importers. However, when deficiencies are found at the general inspection stage at the quarantine station of the Ministry of Health, Labor and Welfare at the port, the whole cost of international delivery will be wasted. Therefore, when new types of tea become available for export, importers collect samples from exporters and at the same time, they send the samples for testing at an official laboratory designated by the Ministry of Health, Labor and Welfare to ensure the appropriateness of the goods.

Apart from the examination of food sanitation, export of auto parts may require an additional inspection stage by the Ministry of Economy, Trade and Industry when those items fall into the category of listed items which require special export license. This stage also can be conducted at the general inspection stage at the port. However, if a defect of a special license is detected at this stage, it may lead to the cessation of the export business license, which eventually could terminate the business activities as a whole. This is again a risk too high to overcome. Therefore, auto parts exporters usually send an application to the Ministry of Economy, Trade, and Industry to consult about the item before preparing those items for shipping. For other items, customs inspections by customs officers of the

Ministry of Finance at the port are conducted.

International transportation is also added to “Total time” in Table 3. In addition, the type of the product is reflected on the days spent for “Inland transport to/from warehouse”. The 2010 LPI data by the World Bank indicated that the lead time of Export and Import is 1 day. This figure is consistent with the case of Tea import. However, used cars demand whole ‘yards’ of products to be loaded to the warehouse and thus the mass transaction of products is not possible. As a result, more days are accumulated to “Inland transport to/from warehouse” for this product than indicated in the LPI data. The number of agencies shown in the LPI data is 2 for exporters and 1.67 for importers. This is consistent with the results found during the interviews. For exporters, packaging and inland transport was handled by one agency and customs clearance by another. Importers also require inland transport and customs clearance managed by one or two agencies. In some cases, importers or exporters themselves have inland transport capacity. In that case, there will be only one outside agency involved.

Regarding physical facilities, not all the sea ports are equipped with one-stop facilities for customs, inspections and port authorization. Traders have to visit different locations to clear customs, inspections, and to receive port authorization and warehouse clearance. On the other hand, airports are mostly endowed with one-stop facilities and customs and inspections clearance and port authorization are all handled at the same location. This explains partly the shortened process of Company D for “Customs and inspections”.

Table 3. Estimated length of time needed from buying an item to importing/exporting and delivery

Goods Traded*	Buy process+	Pre-arrival documents	Port terminal handling	Customs and inspections	Inland transport to/from warehouse	International transport	Total time (days)
Textile (Yokohama) (Company M)	6	4	5	4	2	15	36
Textile (Yokohama) (Company I)	8	6	3	4	3	15	39
Textile (Yokohama) (Company D)	1	4	4	2	3	4 (EMS)	18
Tea (Tokyo) (Company L1)	7(1.5M)	2.5	3	2	1	12	27.5
Tea (Company L2)	7(1M)	3	5	8	1	22	46
Spare Parts (Company T)	10	4	4	4	2	15	39
Used Cars (Company O)	10	5	3	4	5	15	42

+ Average : until the order is in place

*For privacy reason and as a precondition to granting interviews, the actual names of the companies interviewed are not disclosed. Those companies without indication of the location are based in Nagoya.

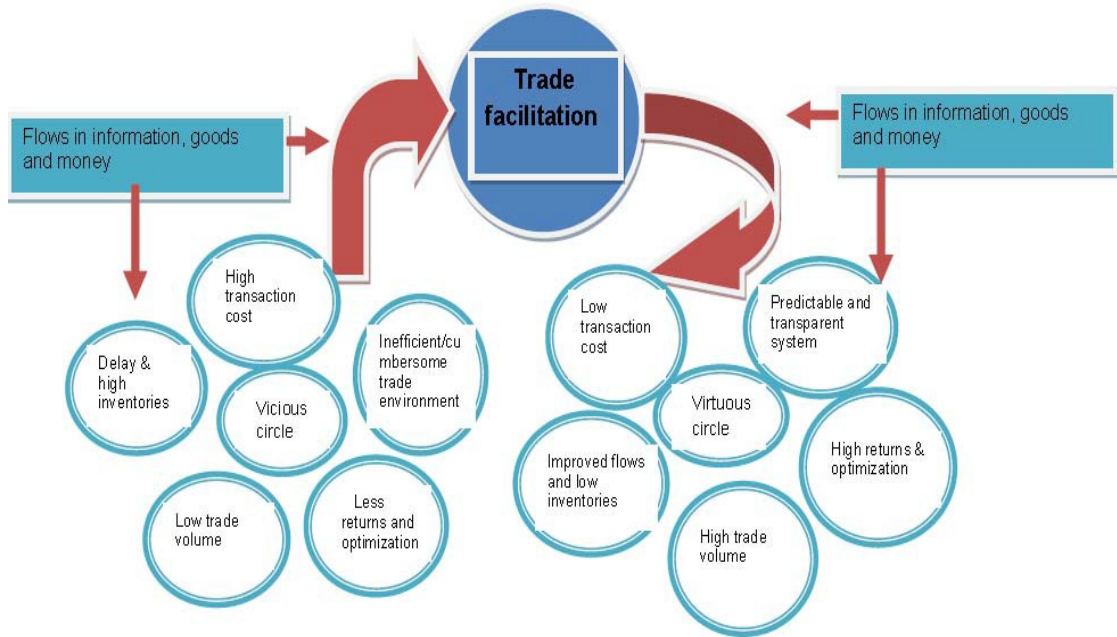
Source: Compiled by Authors

Conclusions

The main focus of this study is to examine the level of simplification and harmonization of trade facilitation during import and export of products identified to and from Japan. Specifically, the study looks into administrative requirements and procedures, the length of time it takes to deliver a product, and the costs involved in transporting and clearing a product at the port of entry or exit. After interviewing importers of textile and tea and exporters of auto parts and used cars in Japan, the following findings were derived:

- While trade facilitation to and from Japan showed tremendous improvements in customs clearance, documentation and standardization, the cost of importing and exporting goods still remains a major concern among the main companies interviewed in this study.
- Almost all the companies interviewed in this study stated that both transportation cost and trade transaction costs constituted large percentage of traded goods' values.
- While sanitation inspection was mentioned by small-scale companies/individual traders as 'bureaucratic', trade in spare parts also faces stringent control over purpose of the purchased items and the end users' information.
- The number of documents needed to complete trade transaction differs based on a) the size of the company and trade volume, b) period in business, c) trading partner country, and d) type of goods
- While there are improvements in computerizing and standardizing documents for customs clearance, paperless and automated import/export system still appear to have limited use
- There seems to be unpredictable rules and local practices as well as language barriers (resulting in delays and misunderstanding of terms of trade), which were cited as major hurdles in trade facilitation by some companies (for example, strict and ever changing environmental regulation in textile, cumbersome and expensive import duties of used cars, cases of unaccountable goods and bribes in export of spare parts)
- If not to the extent of characterizing the trade facilitation processes and procedures as inefficient (Figure 3 right-hand side) the interviewed companies were still willing to state that the system is not transparent and it is costly (customs and documentation besides transportation and packing)
- Time and cost to trade differs by various important factors such as firm size, location of firms, types of products, and port locations. In order to capture the real situation of the recent changes in the trade process regime with regard to the integration of the online application system for instance, close examinations by surveying in a more extensive manner would be called for.

Figure 3. The Objective and Role of Trade Facilitation



Source: Compiled by Authors

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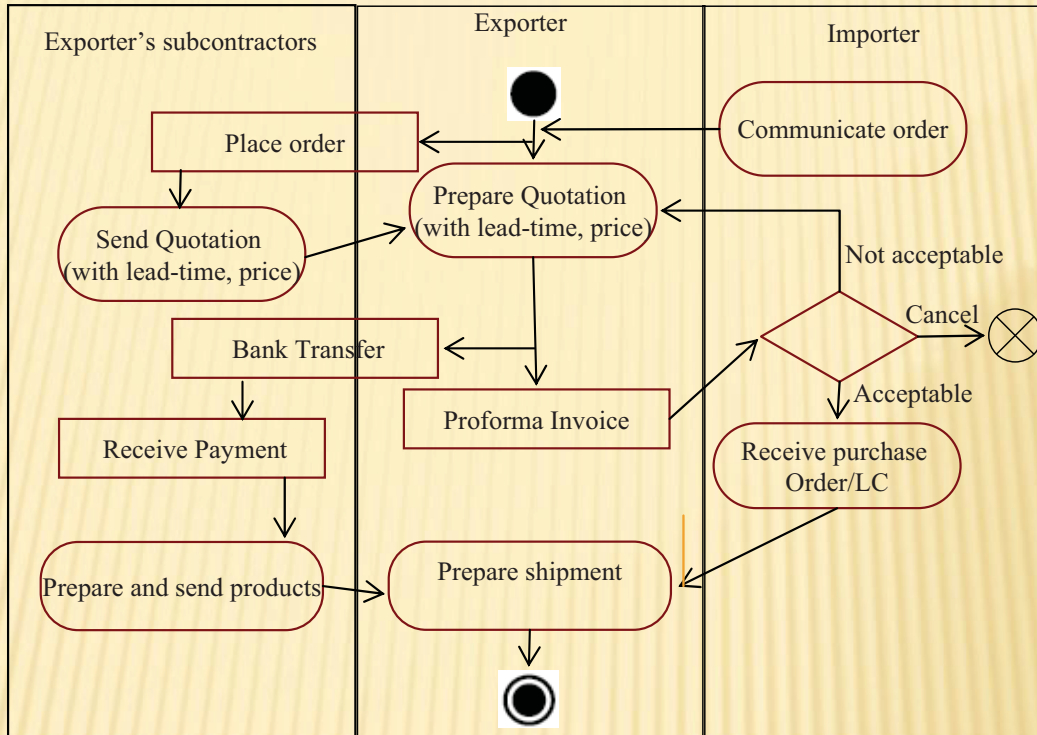
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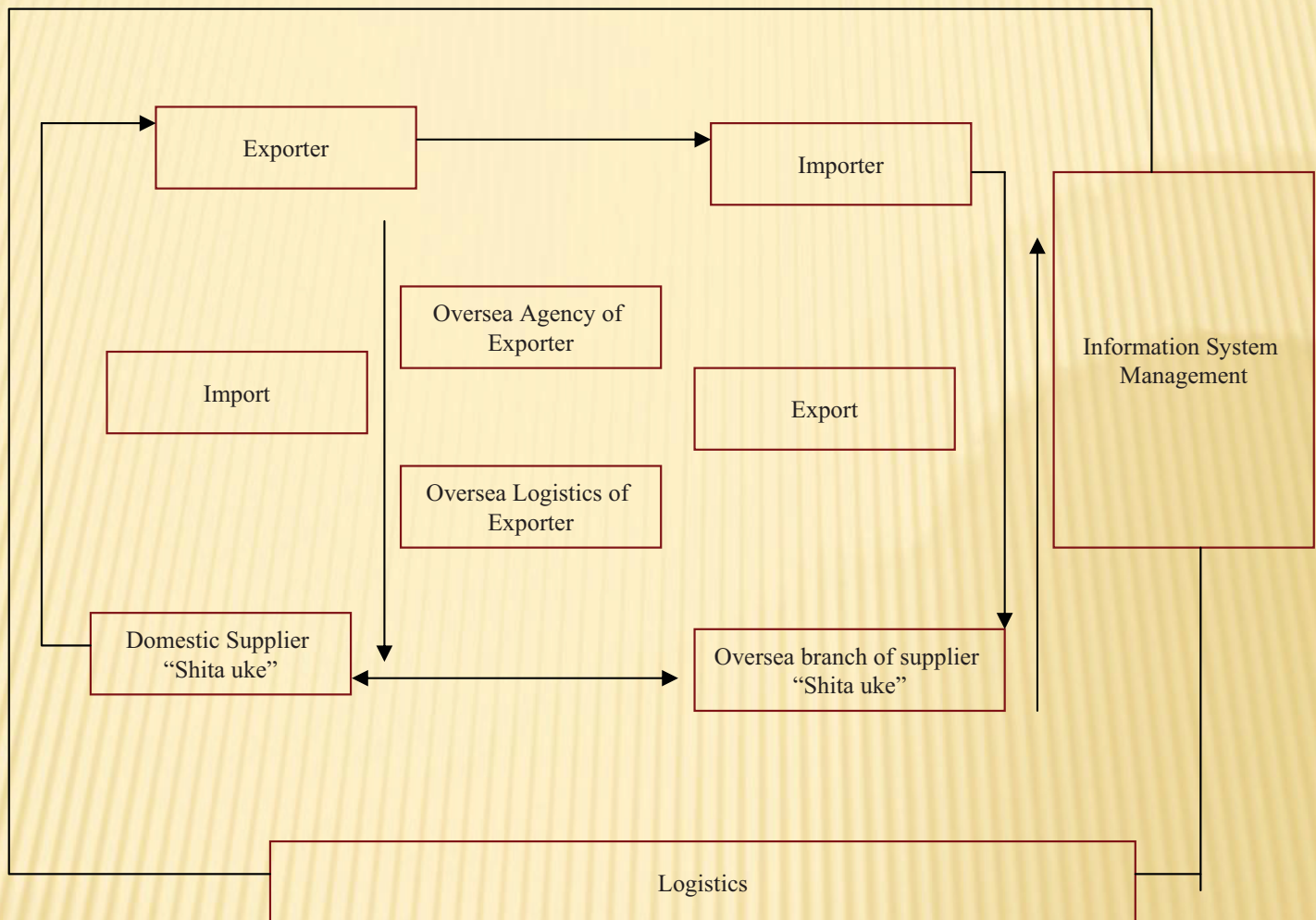
Annex: BPA Charts

BUSINESS PROCESSES OF SPARE PARTS EXPORT FROM JAPAN TO CHINA BY SEA

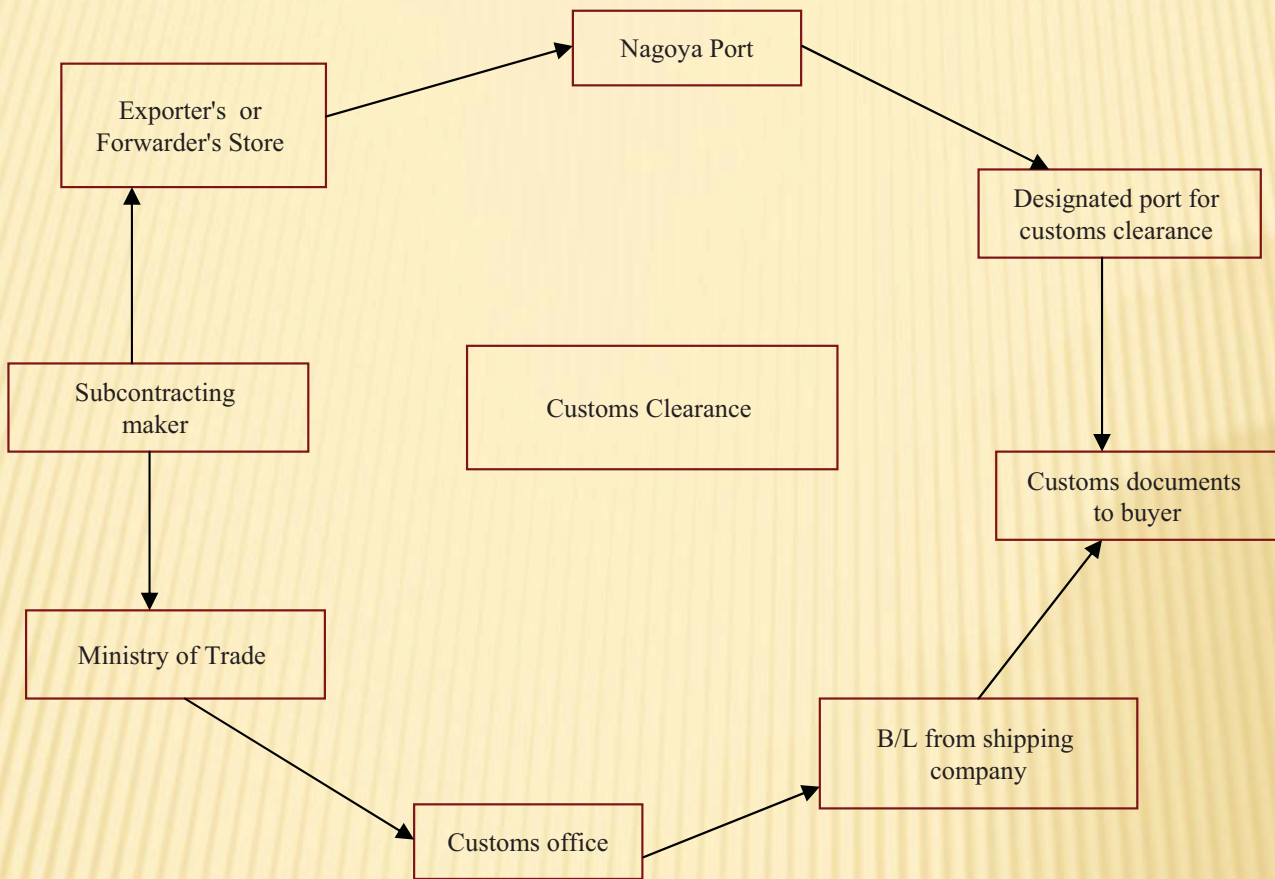
1. Buy



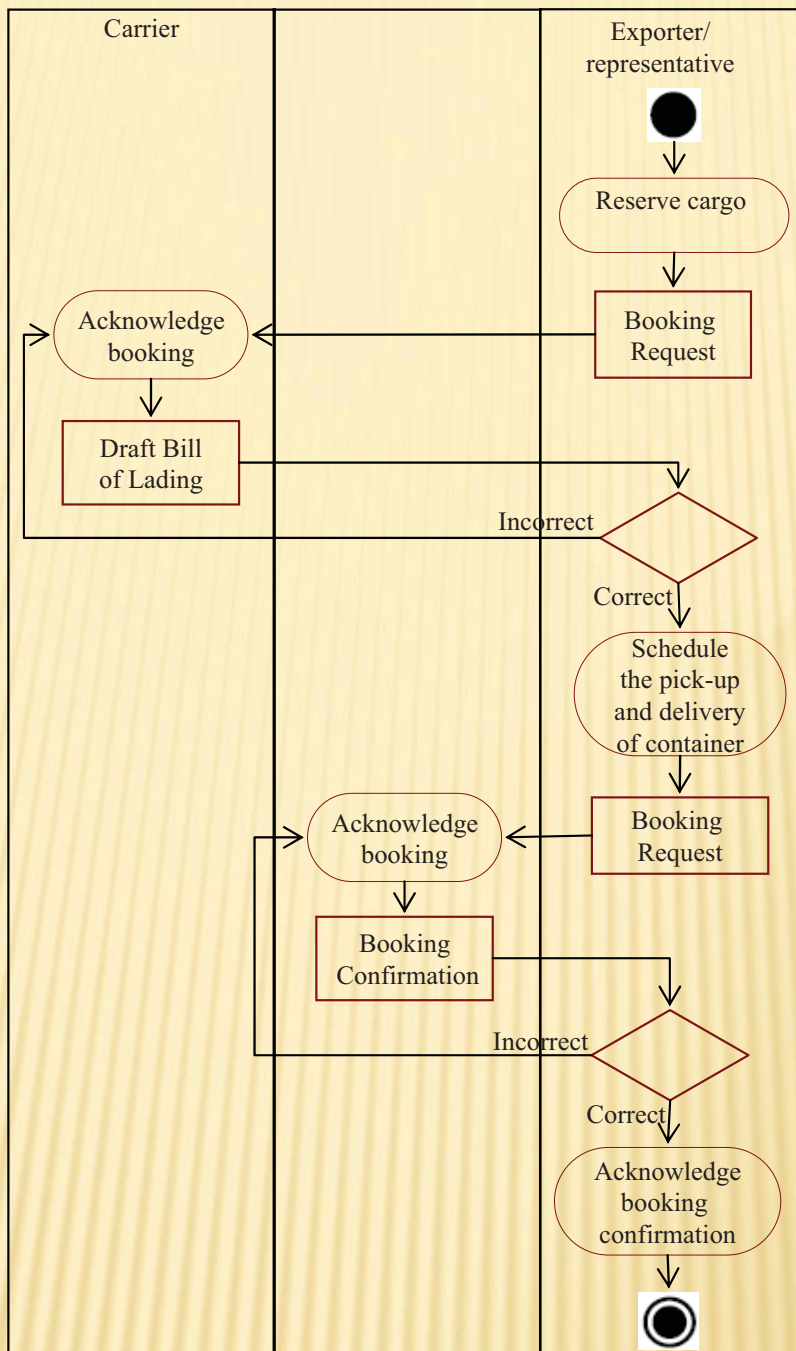
2. Import-Export Flows



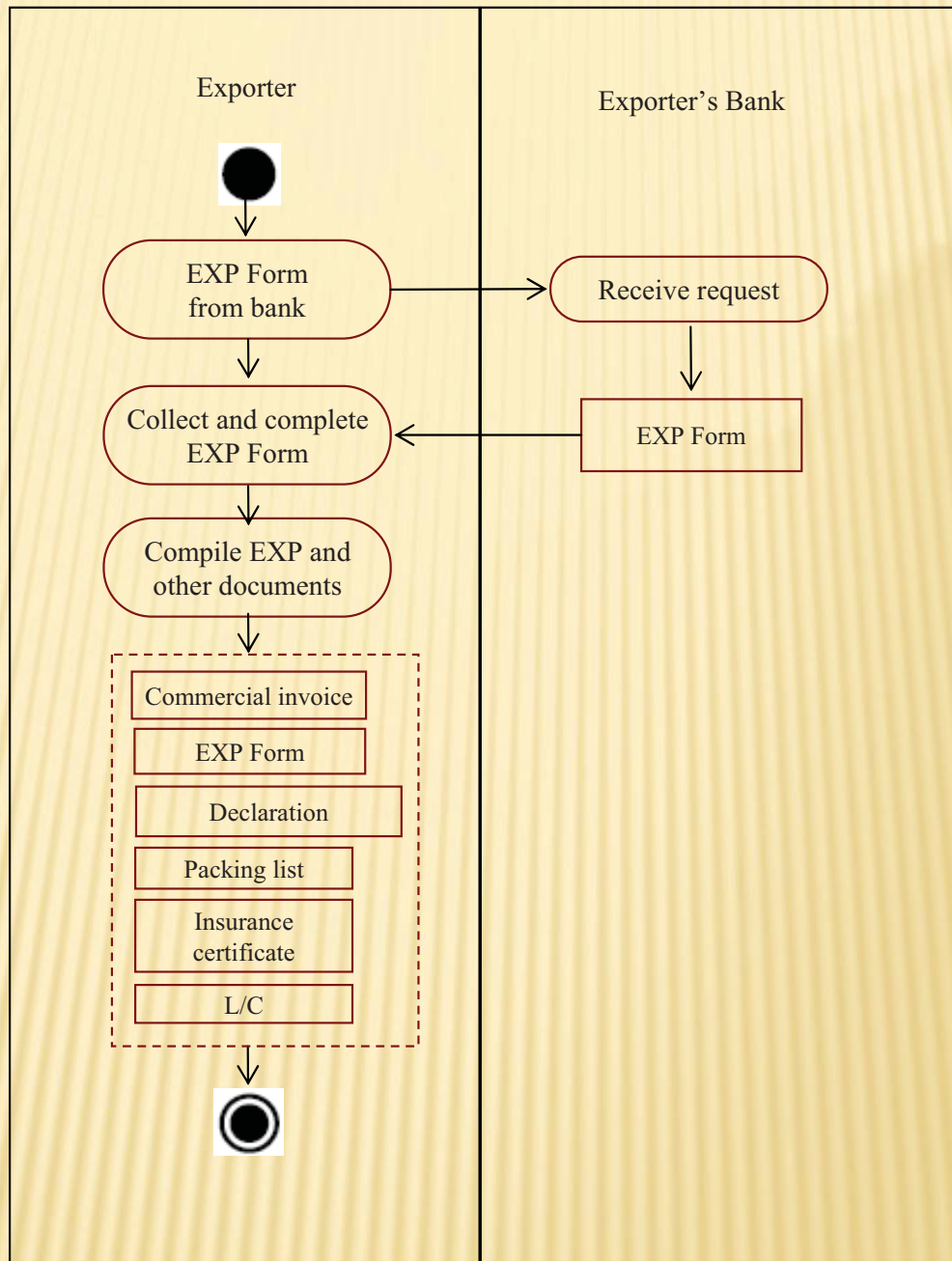
2.1 Shipment flows



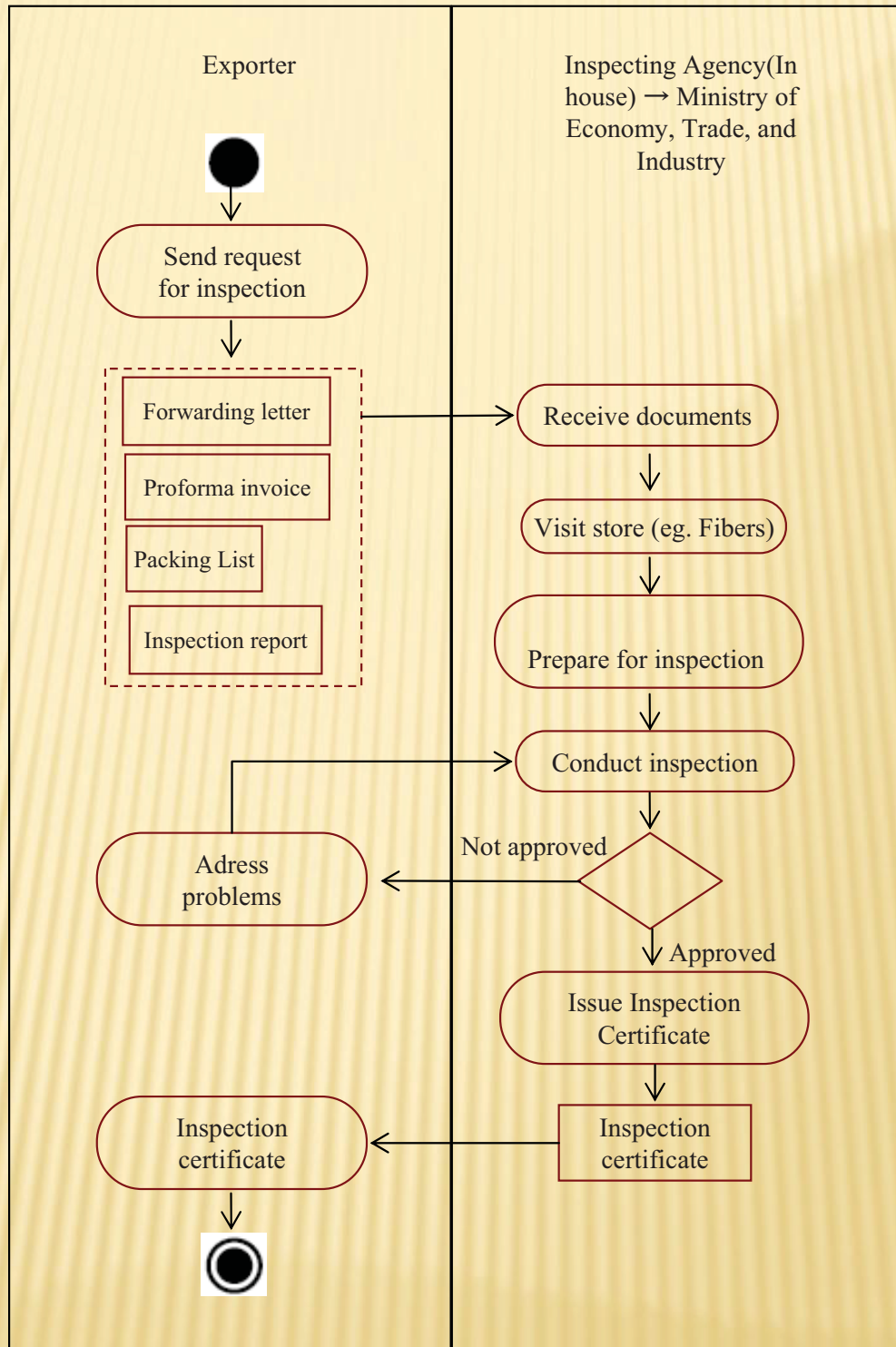
2.2 Shipment Preparation



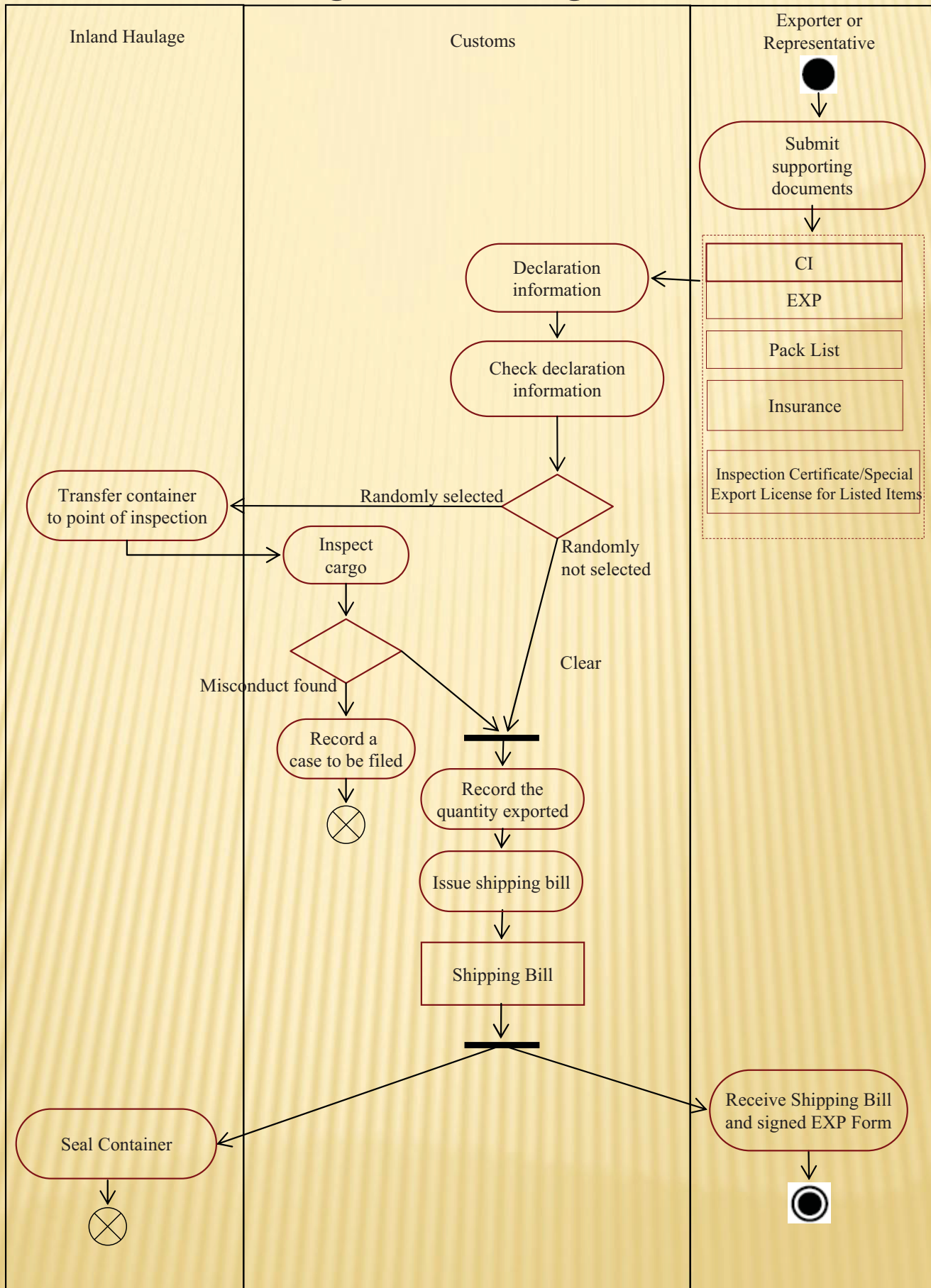
2.3. Prepare Export Document



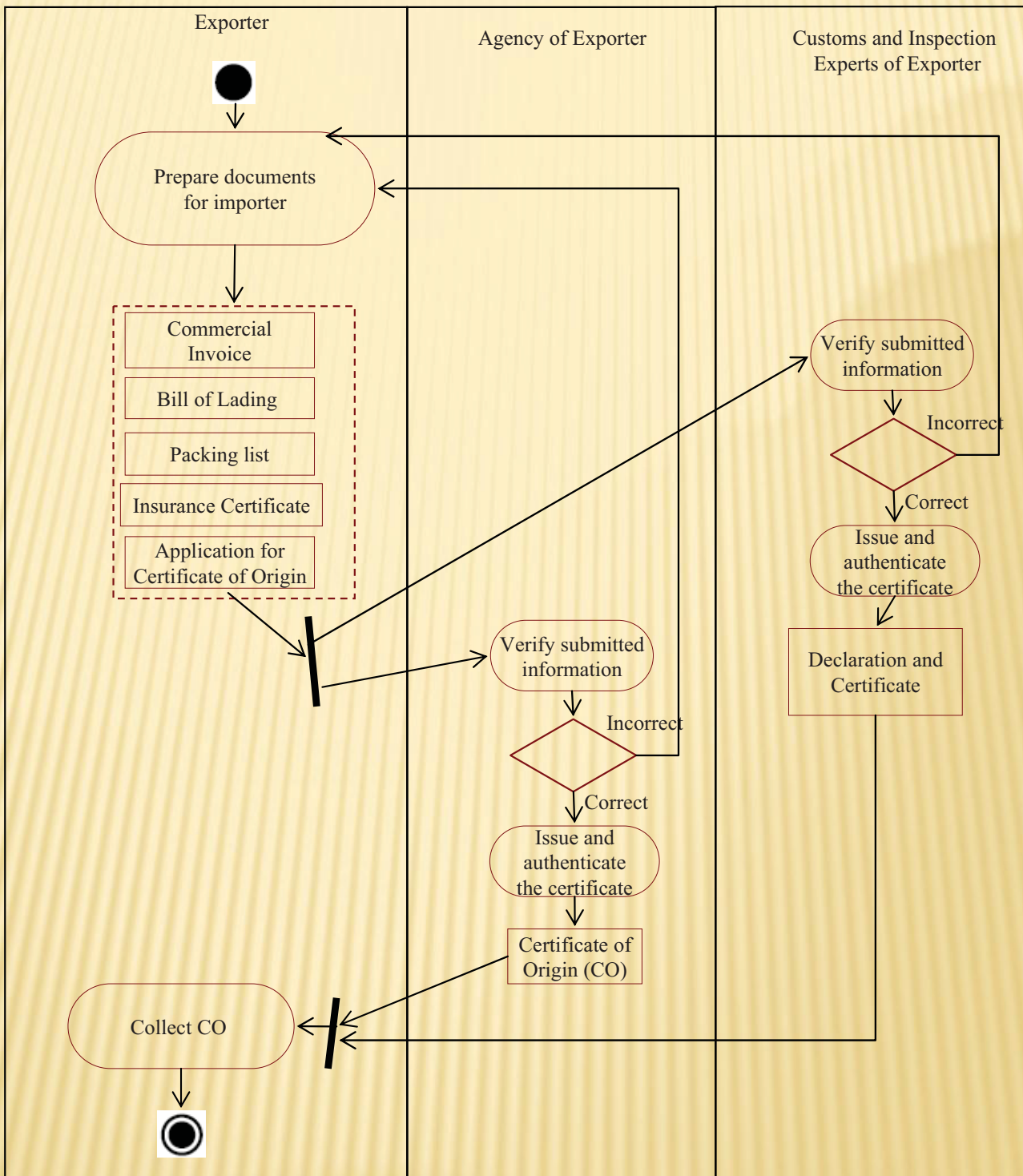
2.4. Arrange Inspection (for Specific Products)

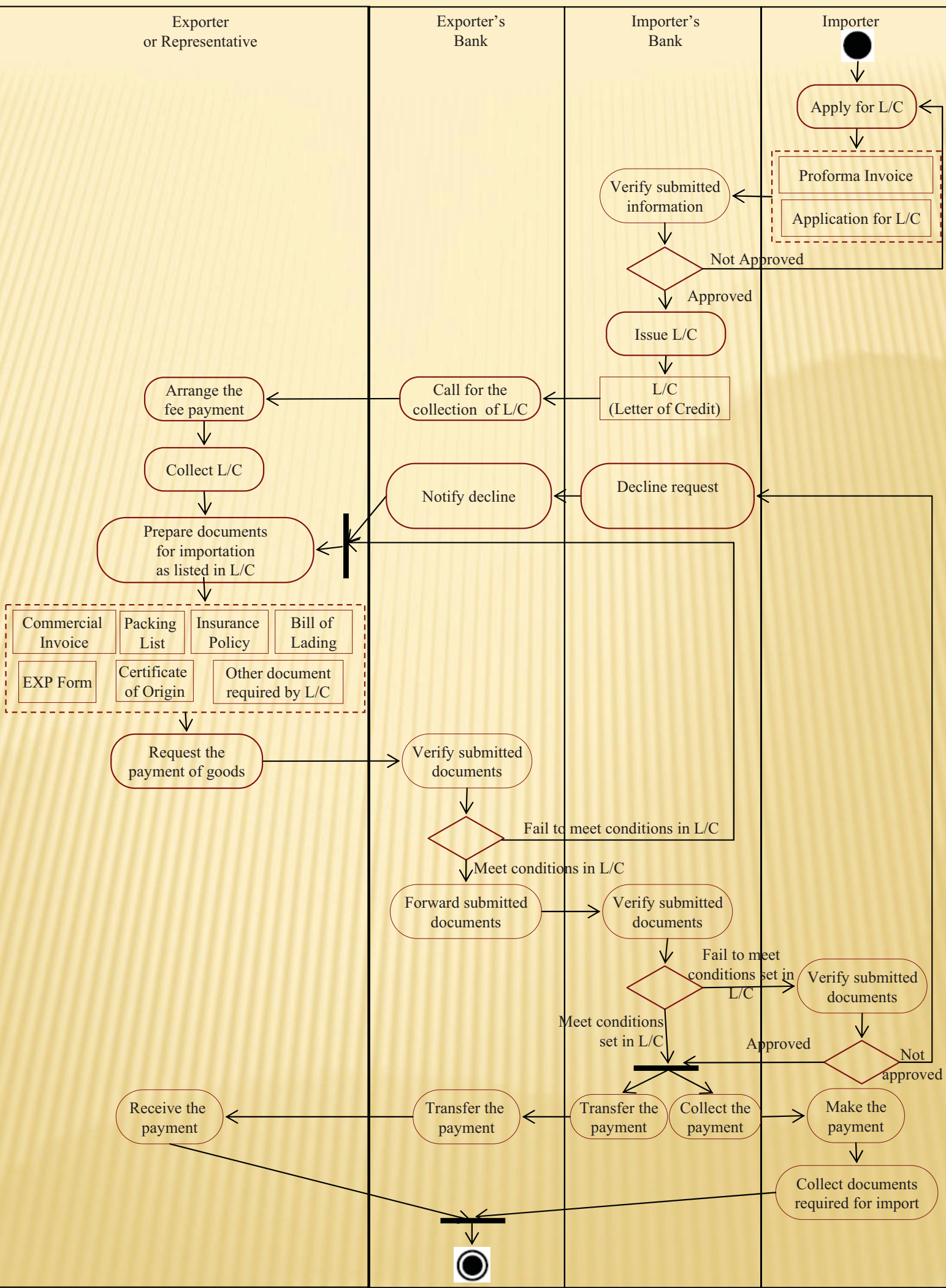


2.5 Clear goods through customs



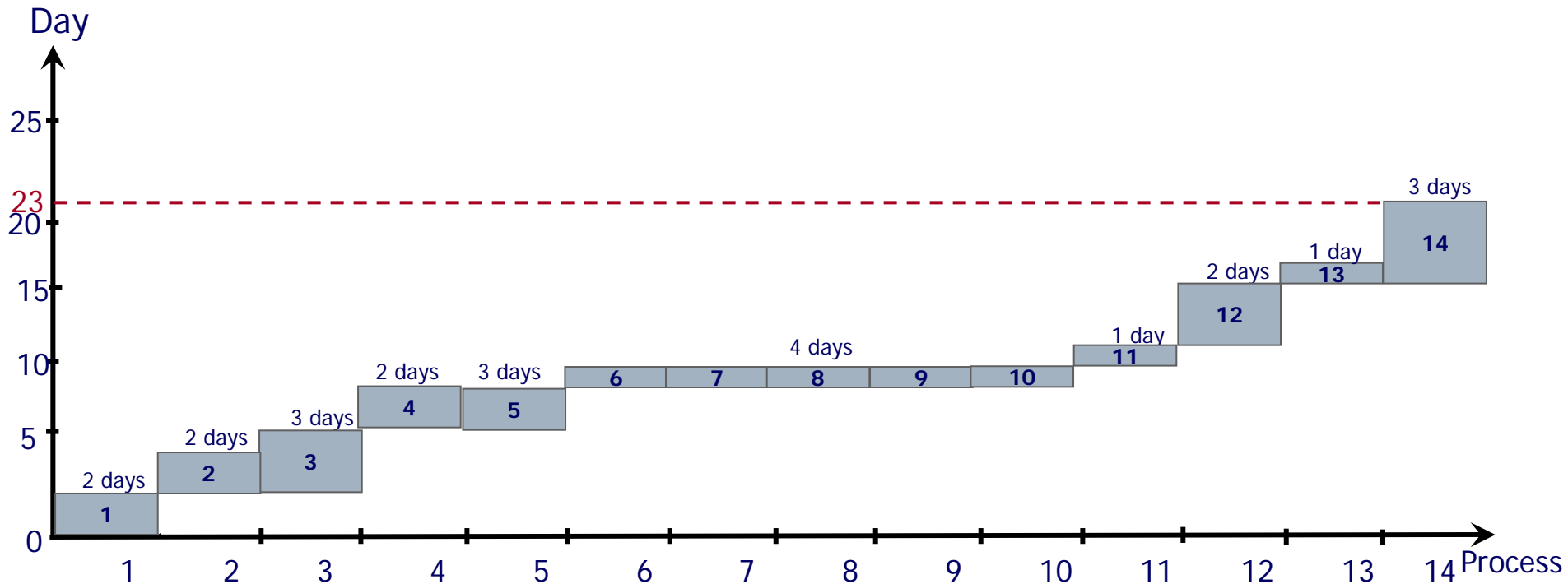
2.6 Prepare documents required by importer





Time-Procedure Chart

Exporting Car Parts from Japan to China

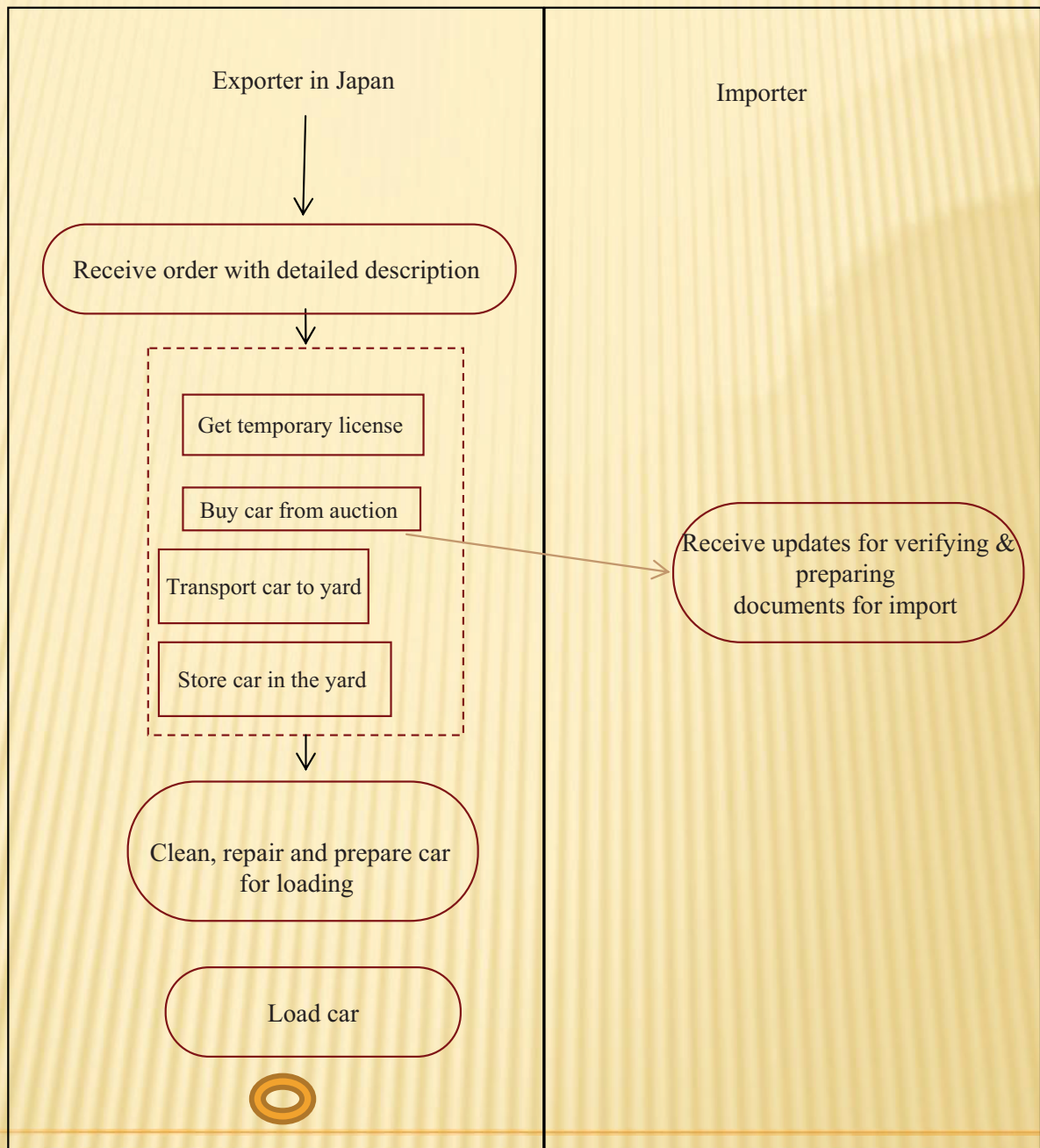


1. Processing quotation from customer and end user confirmation
2. Obtain quotation from maker, verify content & and submit to customer
3. Receive Purchase Order (PO)
4. Issue order to maker and ask for item description
5. Receive item from maker & obtain clearance/ customs declaration

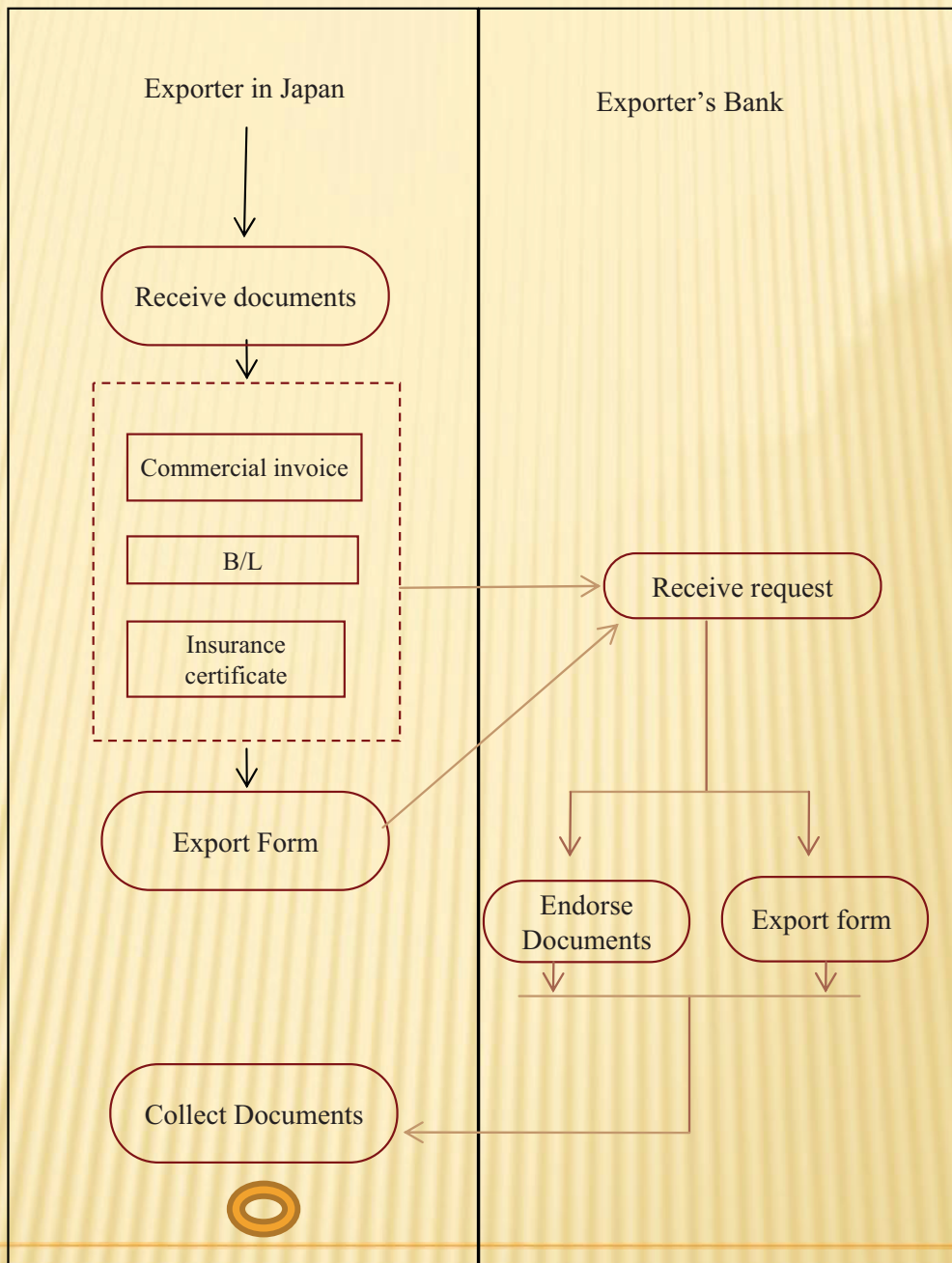
6. Arrange package and transport
7. Provide customs declaration
8. Load container
9. Transfer to port of departure
10. Clear goods through customs
11. Handle container at terminal and stow on vessel
12. Prepare documents required by importer
13. Verify the accuracy/authenticity of exported cargo
14. Pay - Claim payment of goods

Export of Used Cars from Japan to Sri Lanka

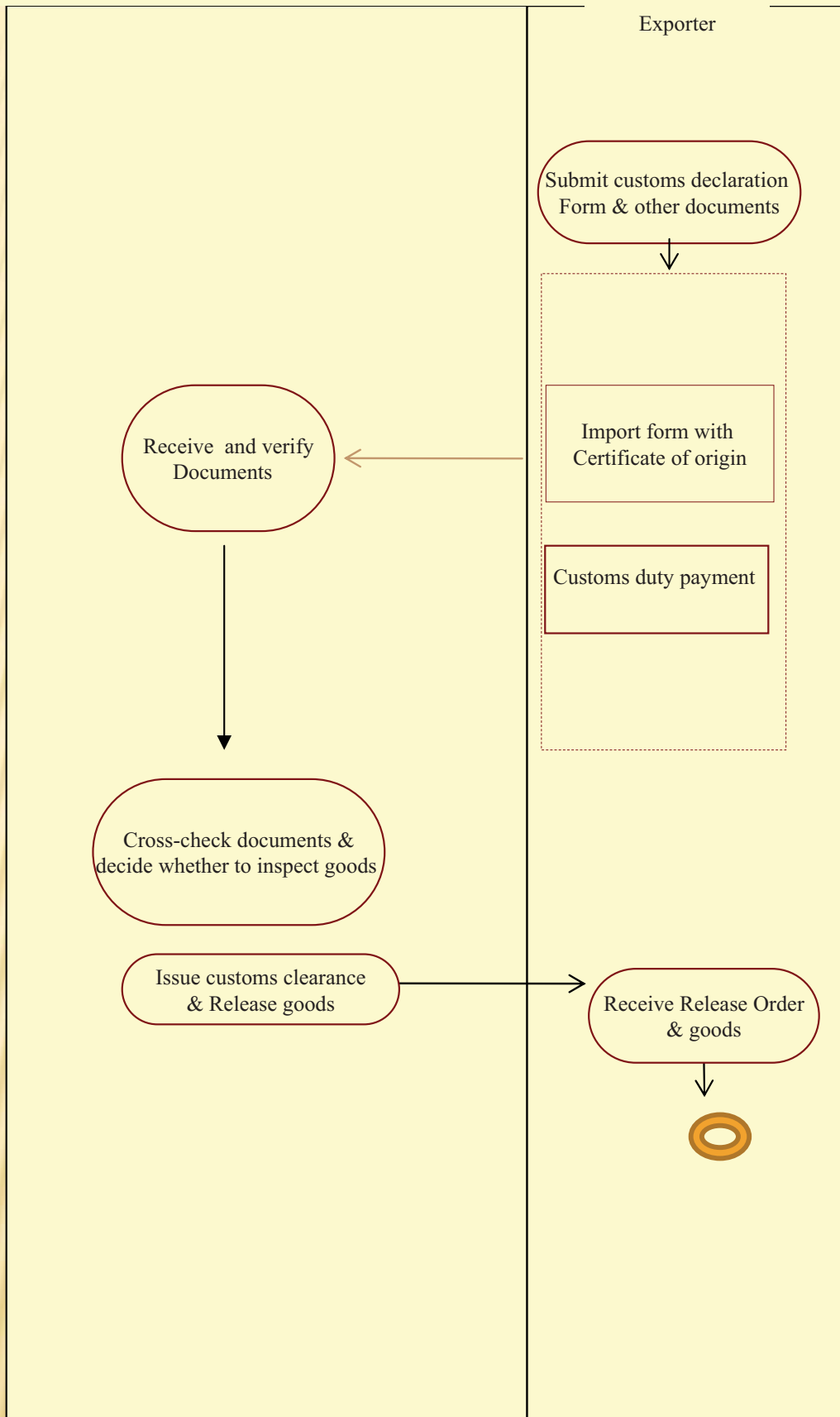
Buy and Transport of used Cars

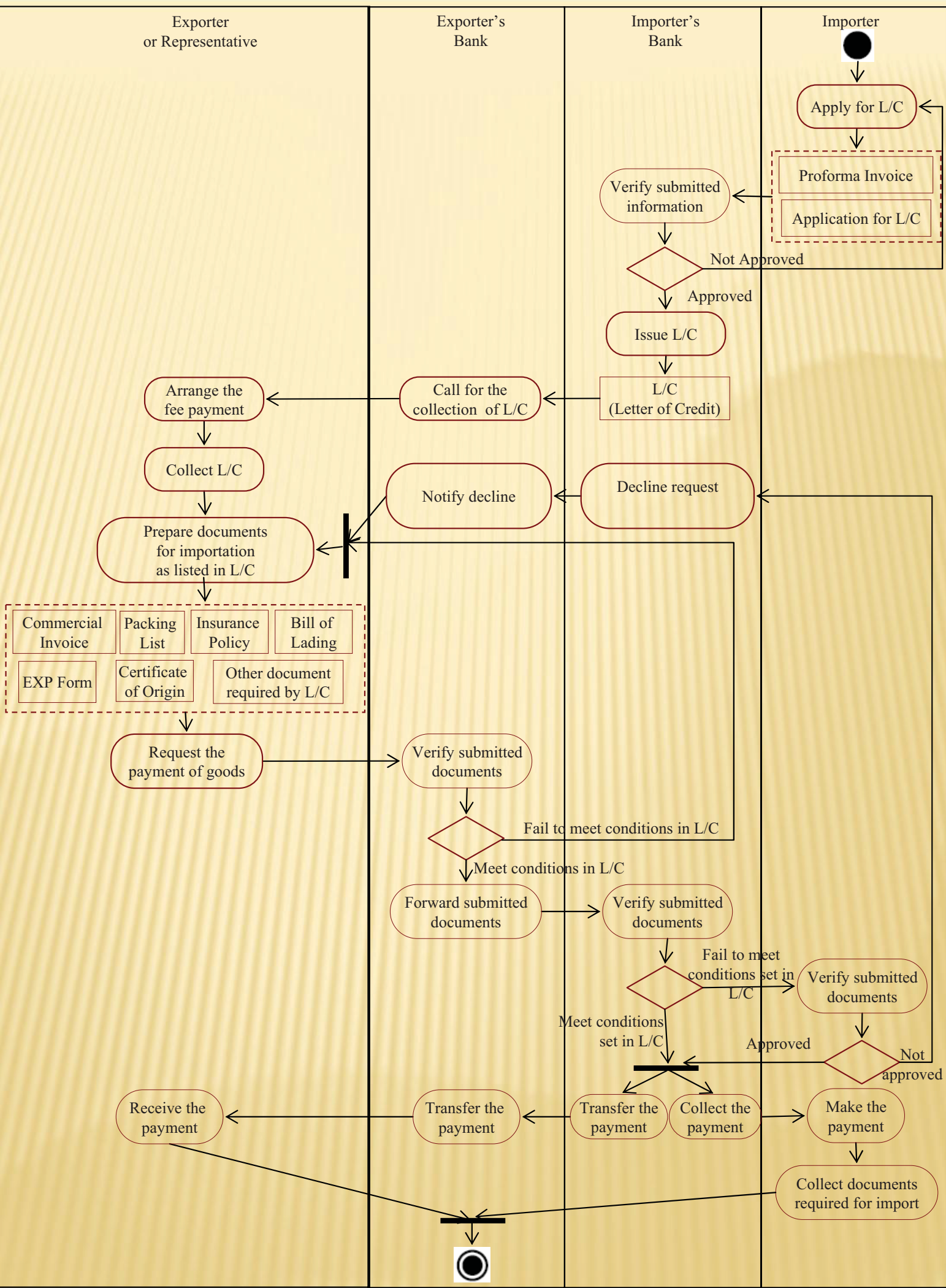


Processing Documents for Export of used Car



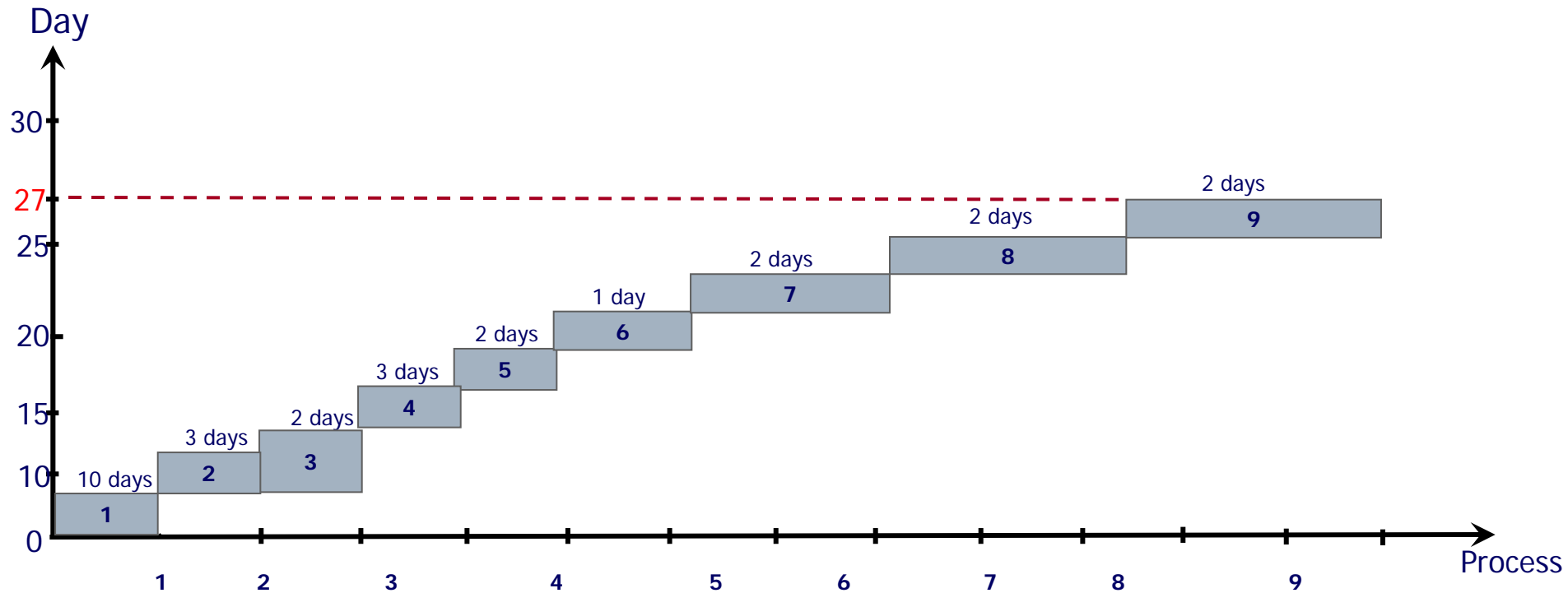
Customs Clearance





Time-Procedure Chart

Exporting Used Cars from Japan to Sri Lanka

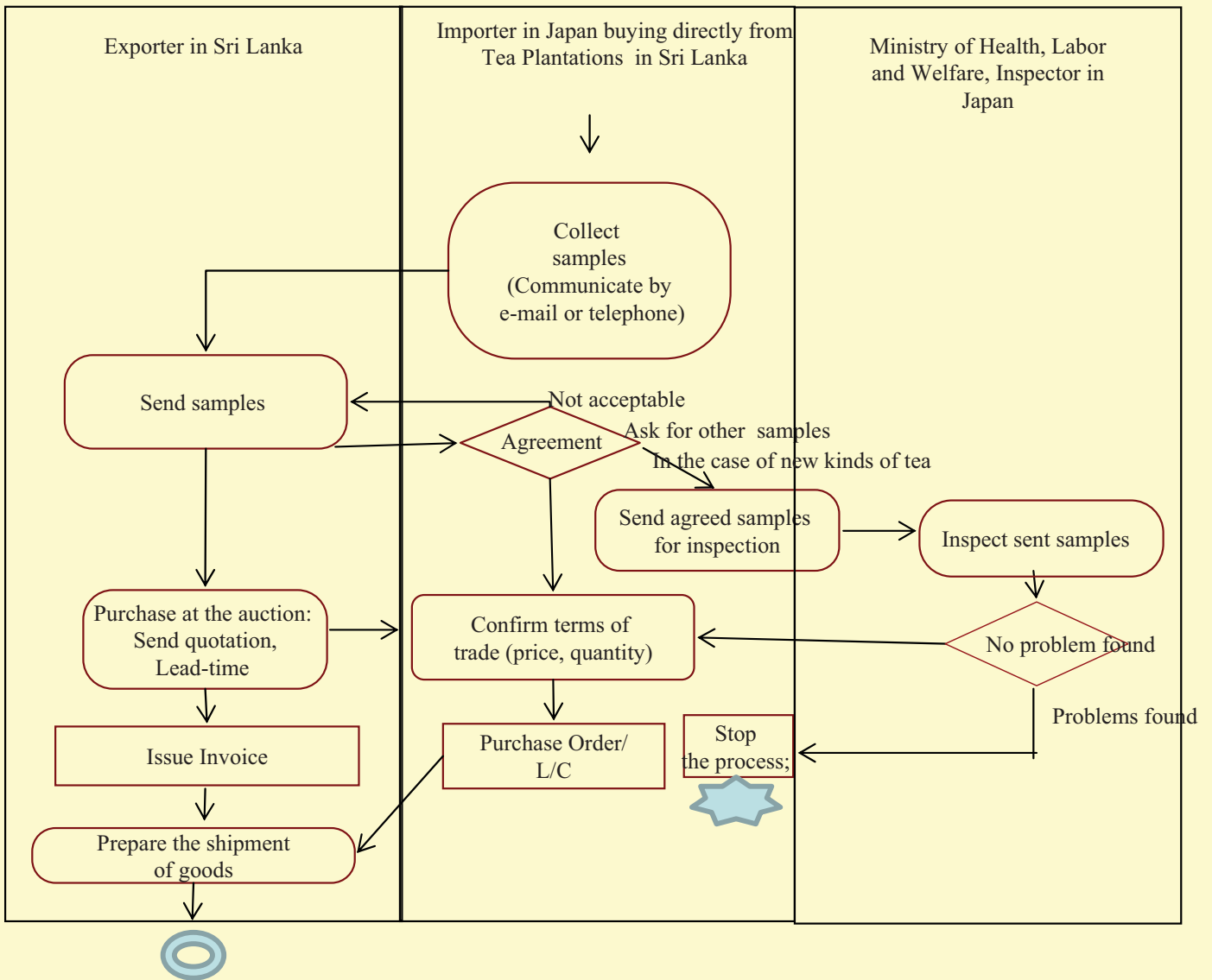


1. Conclude sales contract
2. Process payment
3. Buy cars from auction
4. Arrange transport from auction to shipping agent or yard
5. Apply for export permit
6. Load the cars

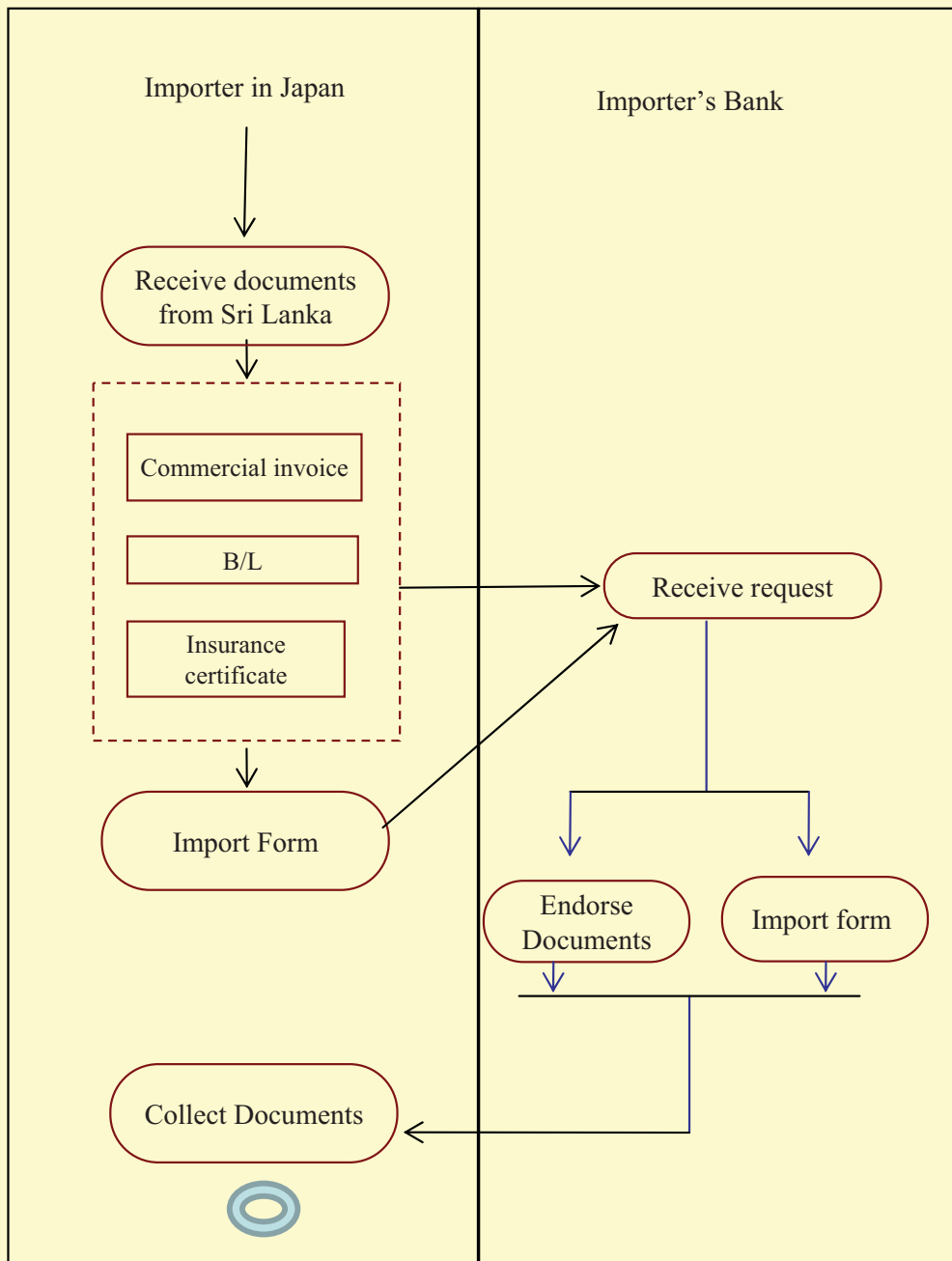
7. Customs clearance
8. Customs clearance with inspection
9. Load the cars and ship

Processes of Tea Import from Sri Lanka

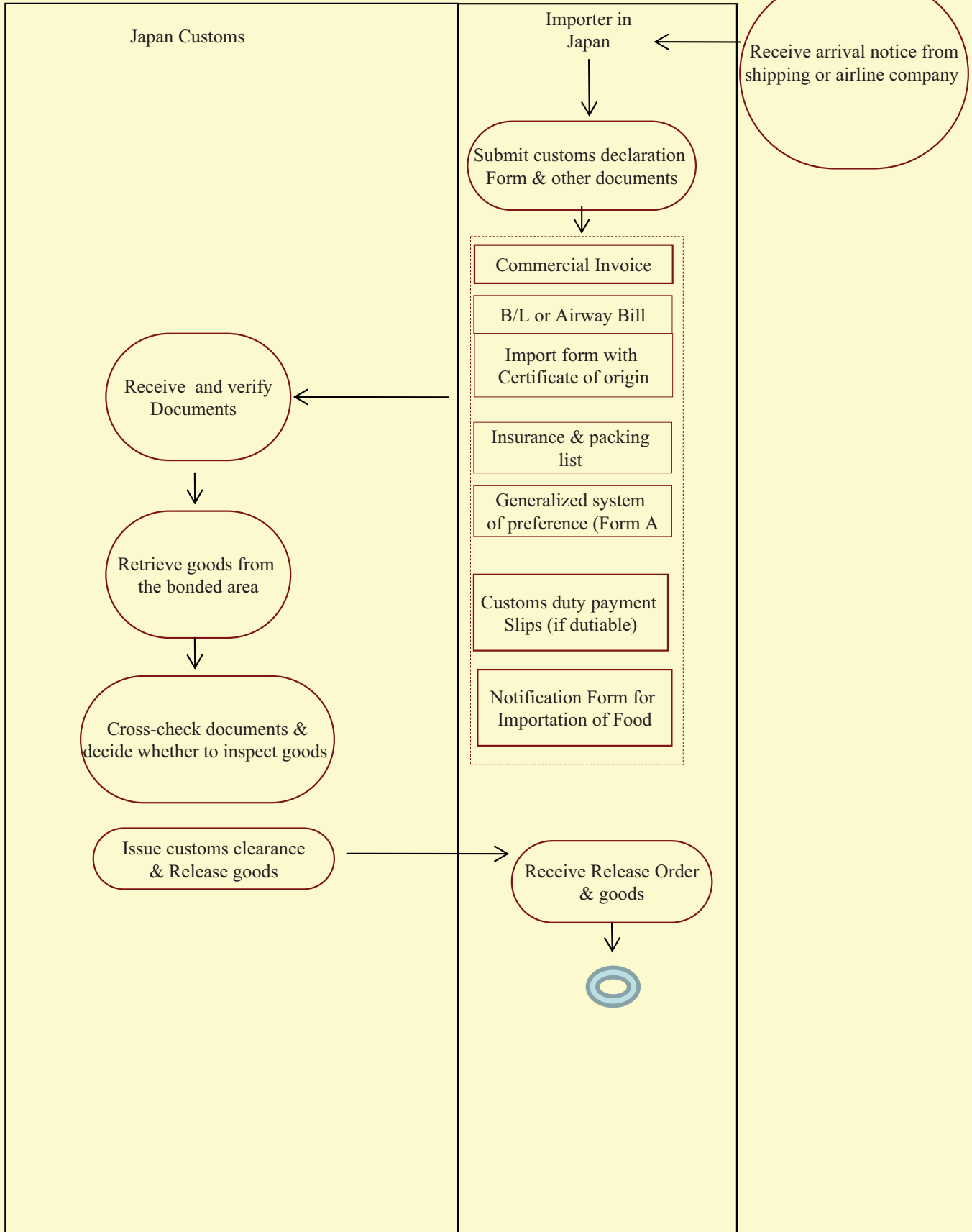
Buying/Order



Documents Required for Import of Tea



Customs Clearance

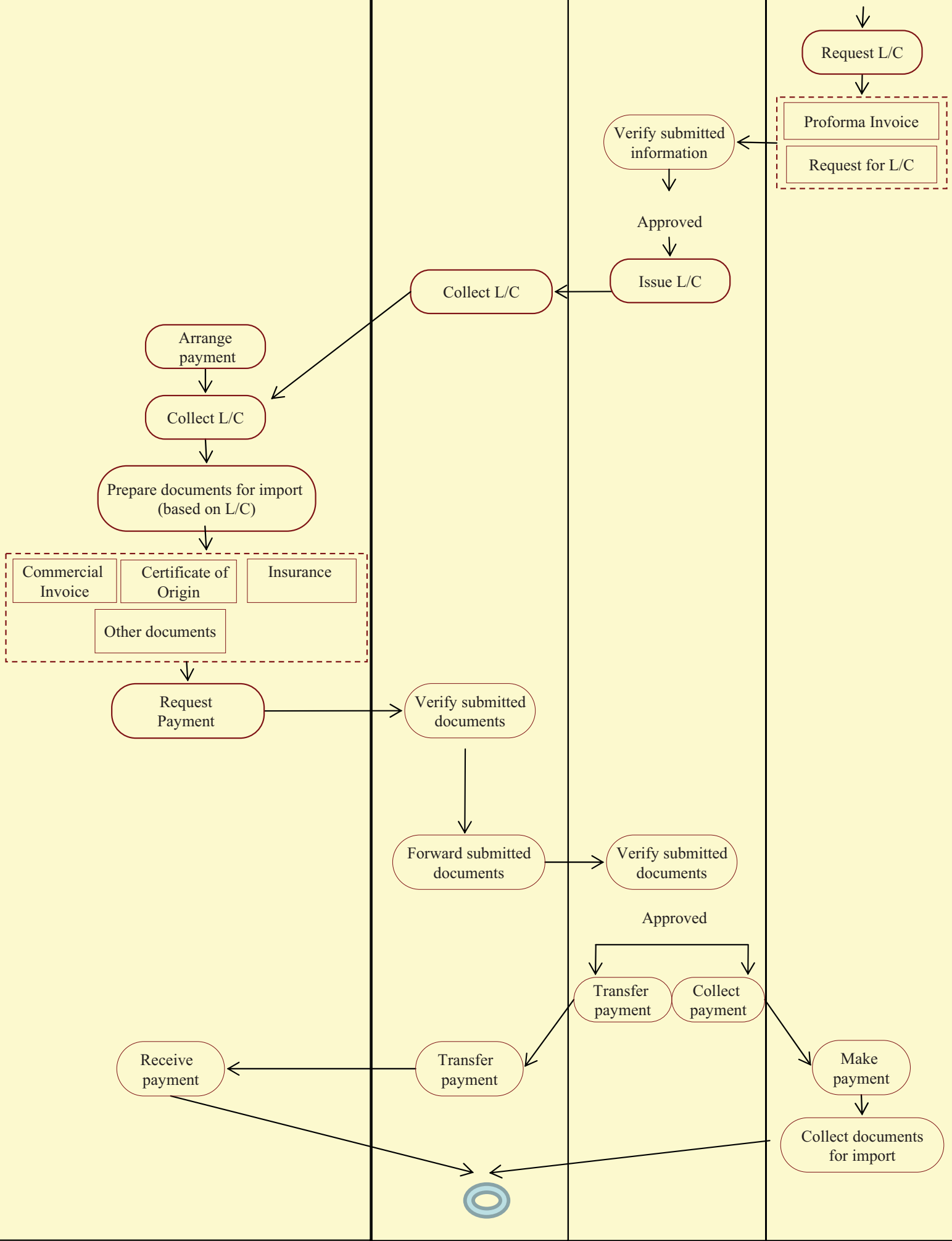


Exporter in Sri Lanka

Exporter's Bank

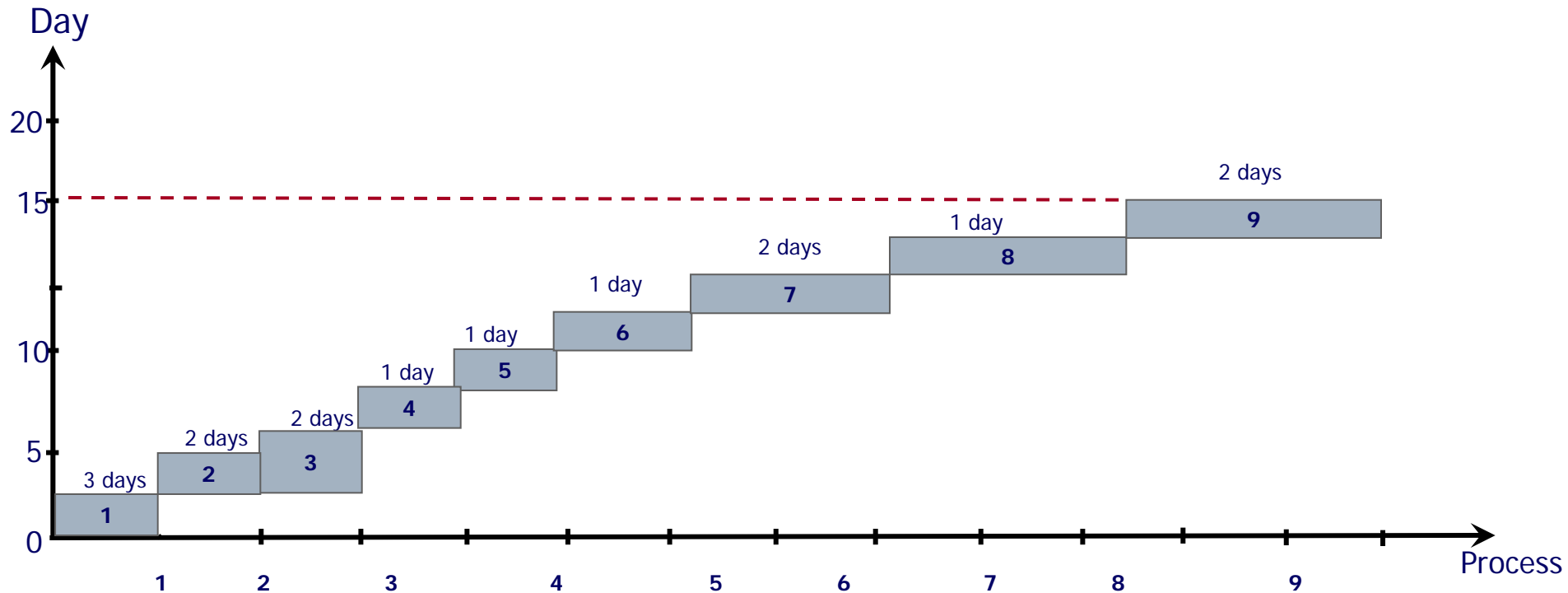
Importer's Bank

Importer in Japan



Time-Procedure Chart

Importing Tea to Japan from Sri Lanka

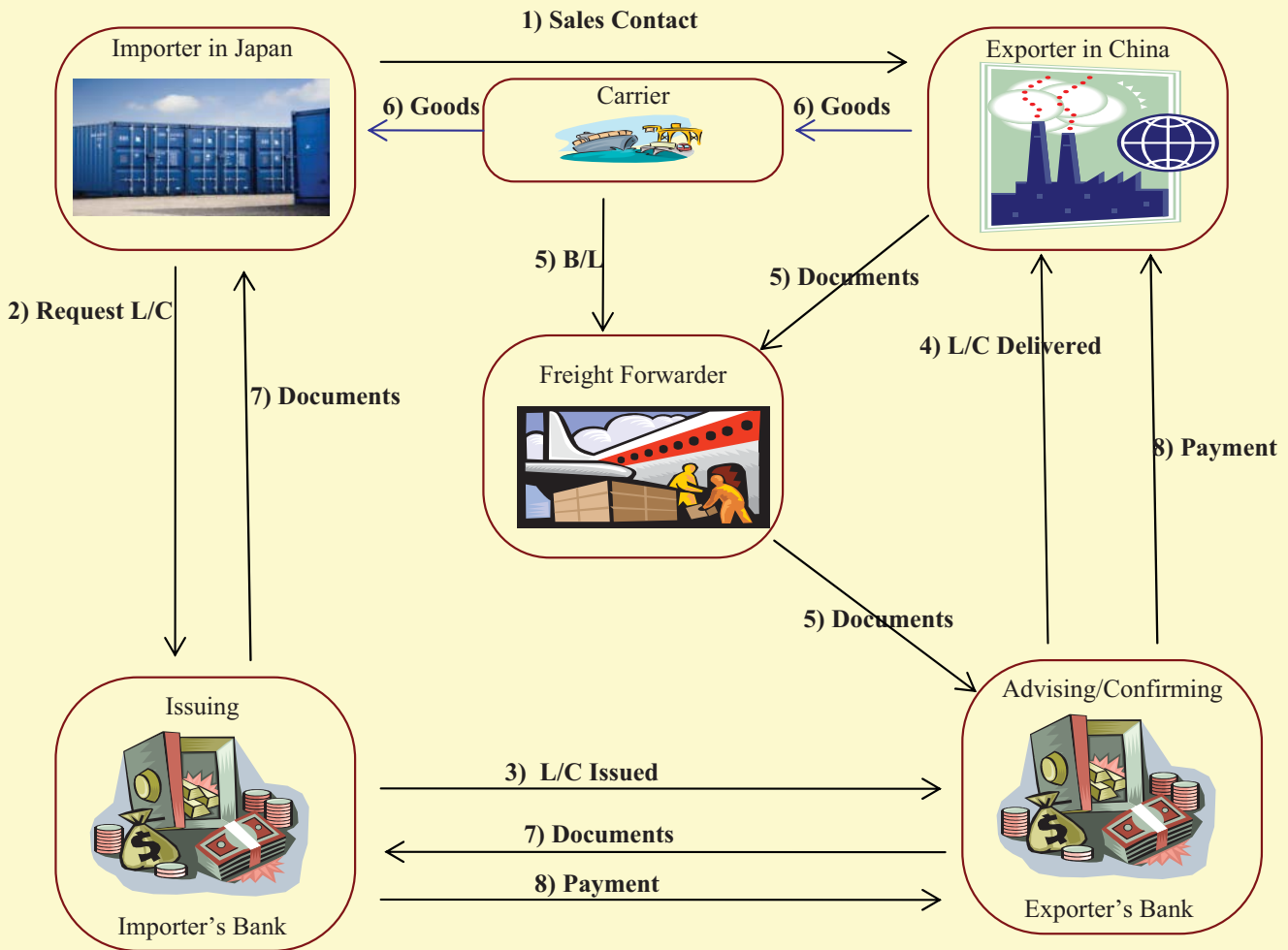


1. Select and specify tea leaves for order
2. Conclude contract
3. Prepare export memo
4. Arrange inspection (depends on lot)

5. Arrange package and invoice
6. Provide customs declaration
7. Clear goods through customs
8. Verify the accuracy/authenticity of exported cargo
9. Pay - Claim payment of goods

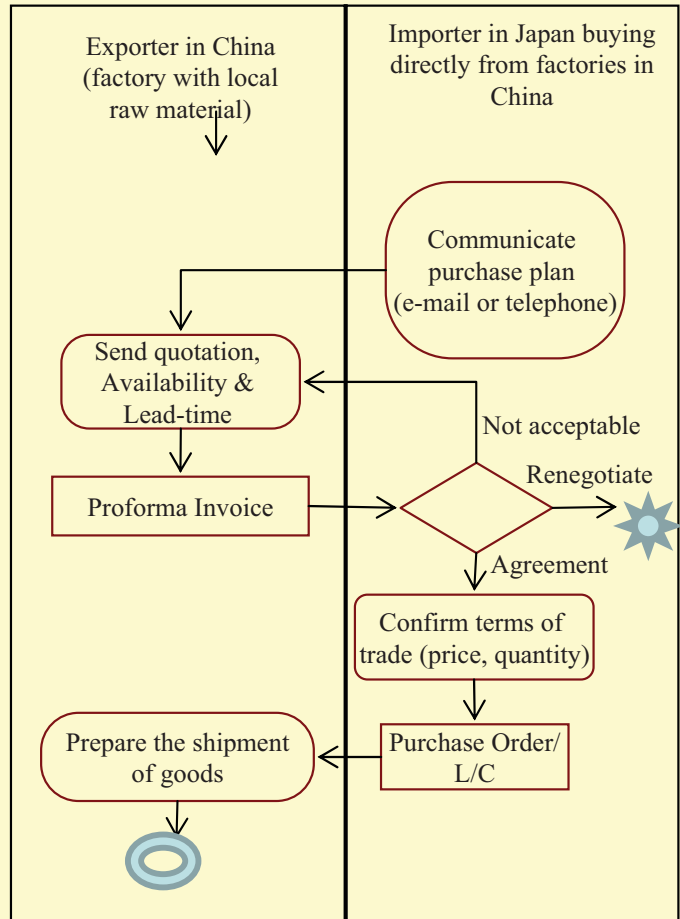
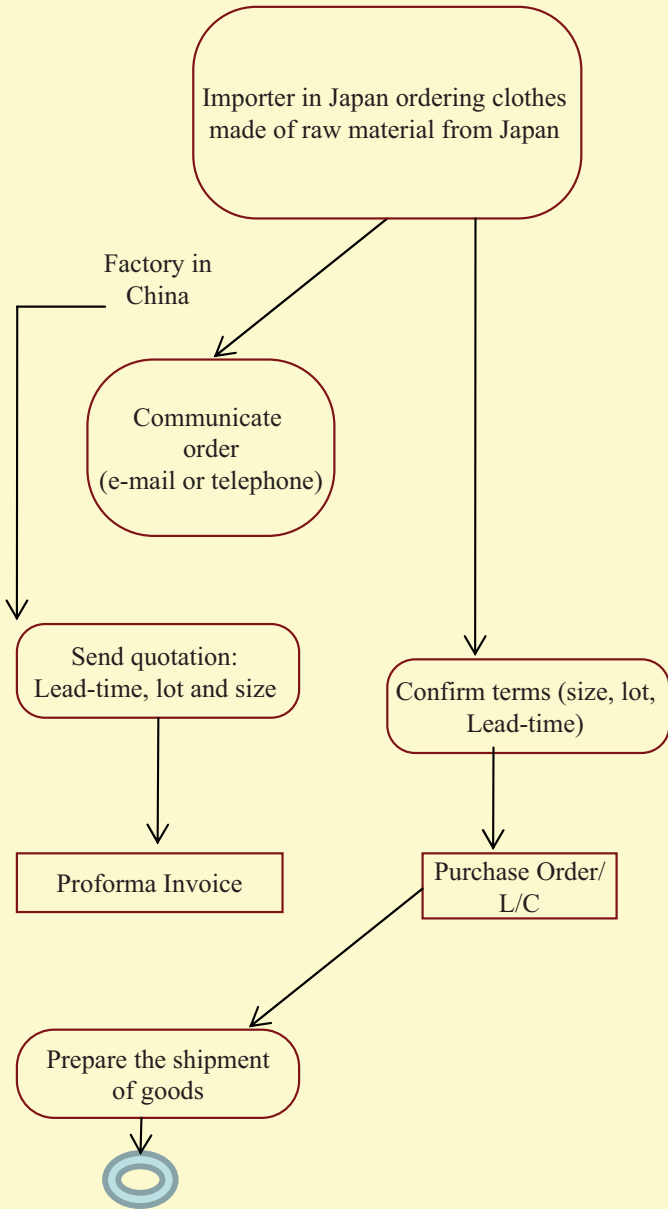
Processes of Textile Import from China

Overall Flows

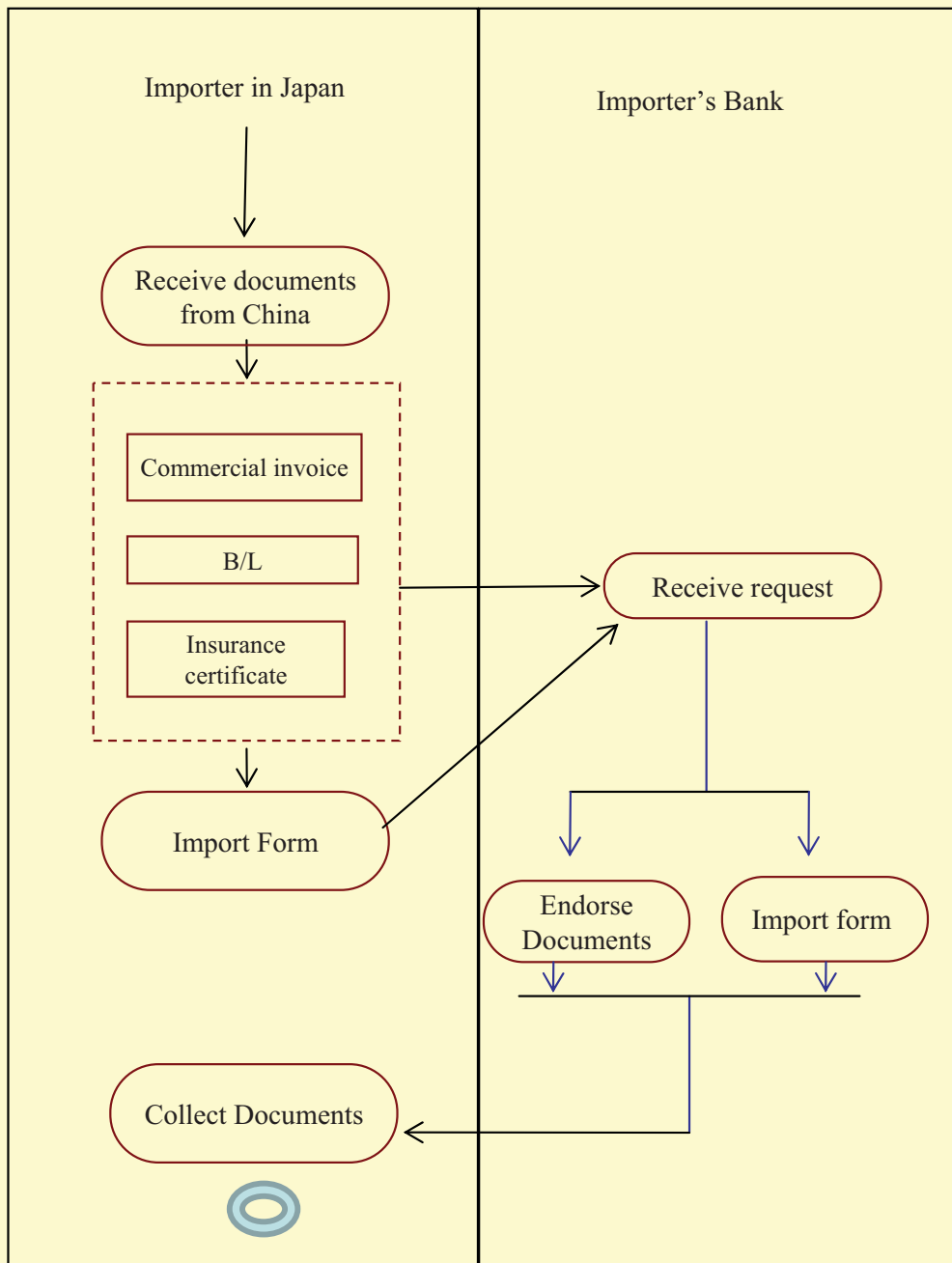


Documents include: Shipping Instructions, Commercial Invoice, Packing List, Bills of Lading—Air, Ocean; Customs Declaration, Insurance Policy, Certificate of Origin, Inspection Certificates, and the Letter of Credit.

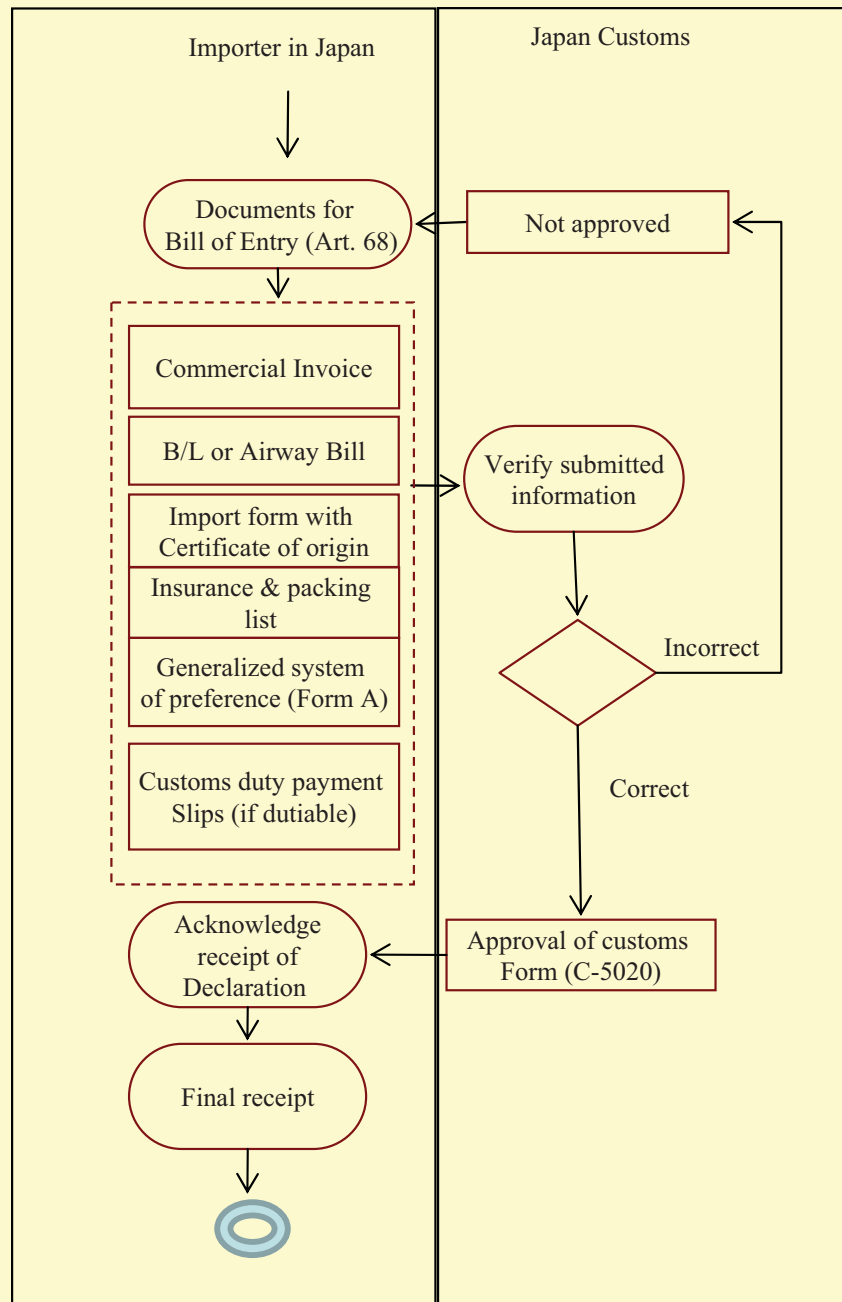
Buying/Order



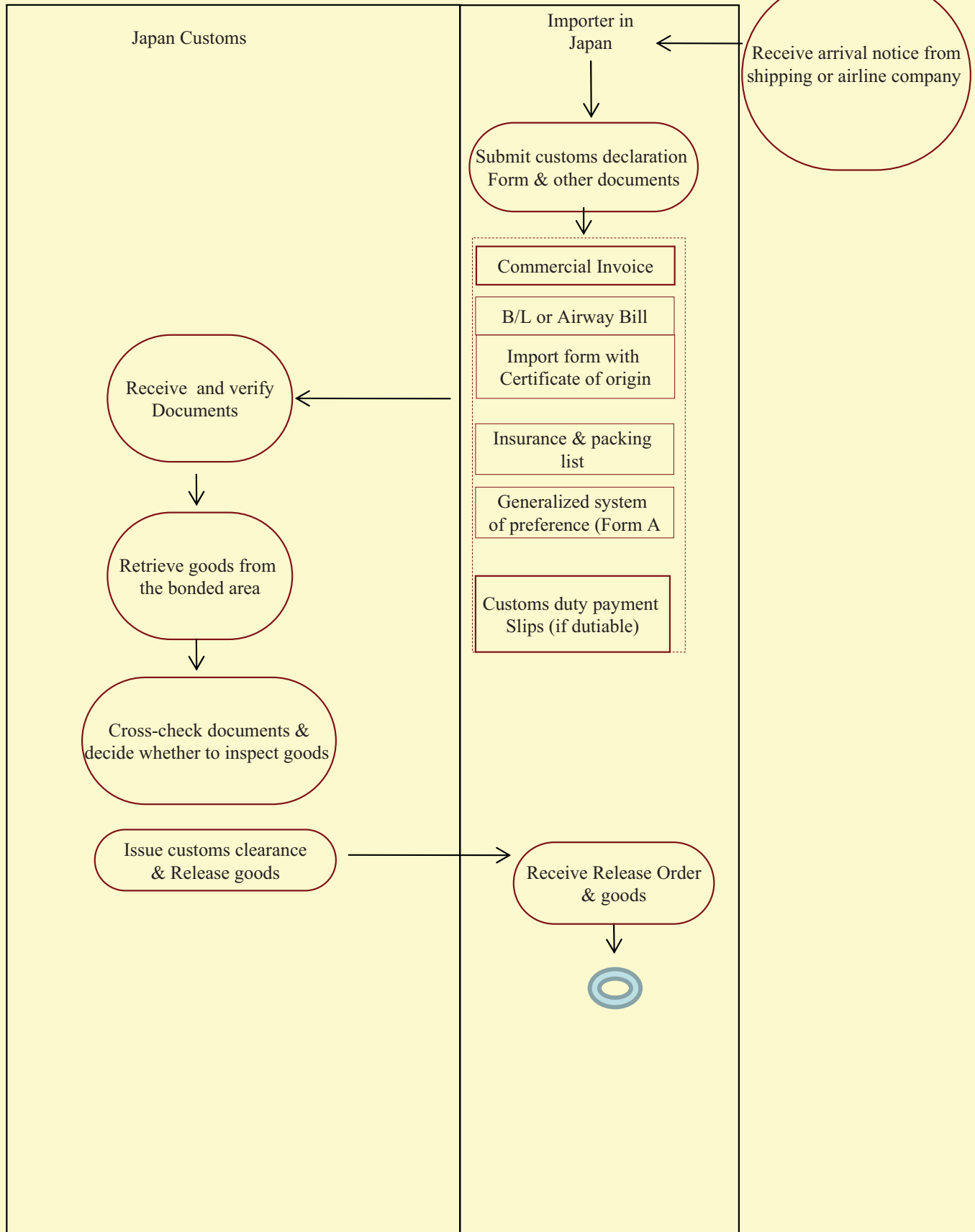
Documents Required for Import of Textiles



Customs Declaration



Customs Clearance



Exporter in China

Exporter's Bank

Importer's Bank

Importer in Japan

Arrange payment

Collect L/C

Prepare documents for import (based on L/C)

Commercial Invoice

Certificate of Origin

Insurance

Other documents

Request Payment

Receive payment

Collect L/C

Verify submitted documents

Forward submitted documents

Transfer payment

Verify submitted information

Approved

Issue L/C

Verify submitted documents

Approved

Transfer payment

Collect payment

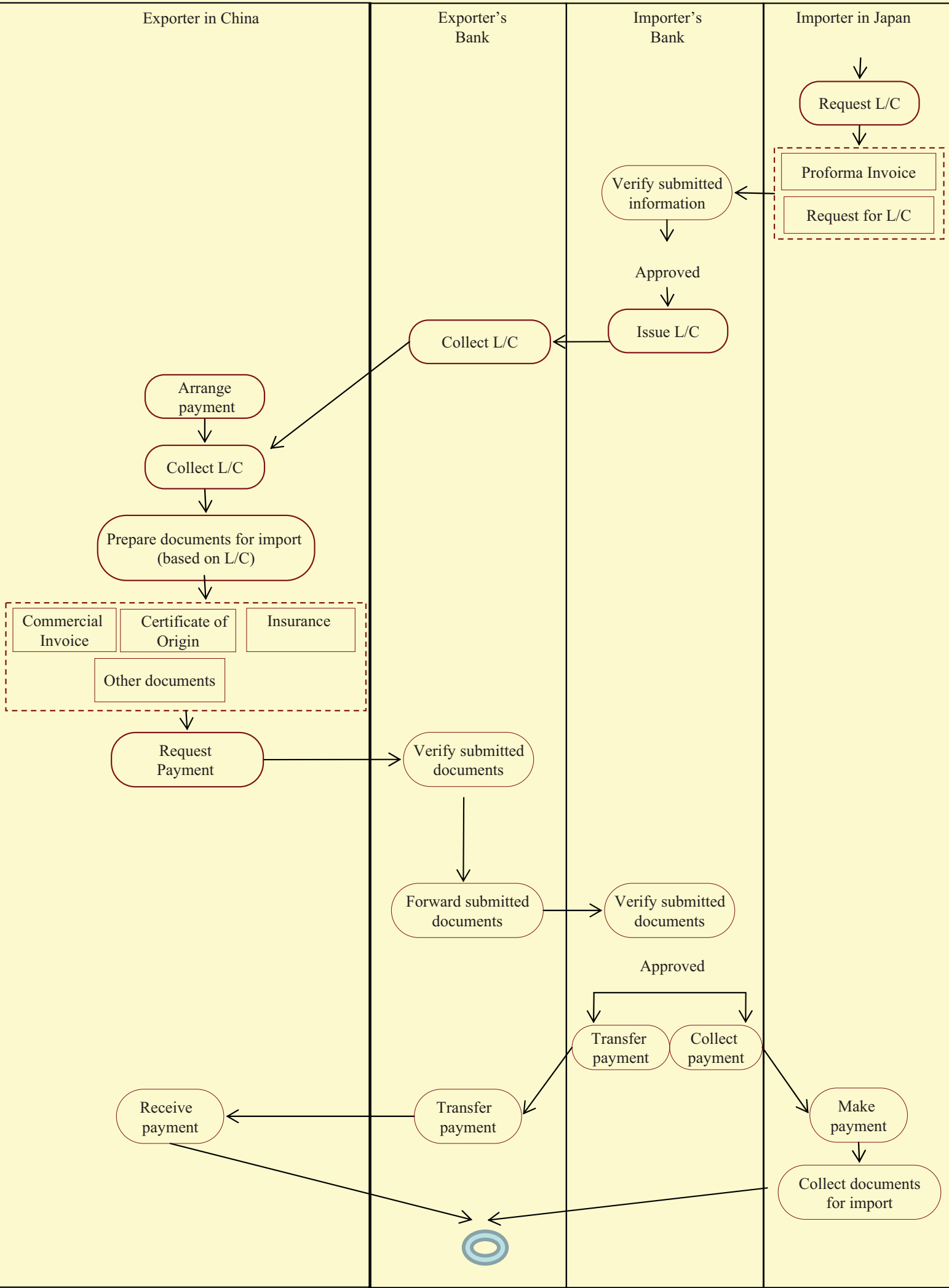
Request L/C

Proforma Invoice

Request for L/C

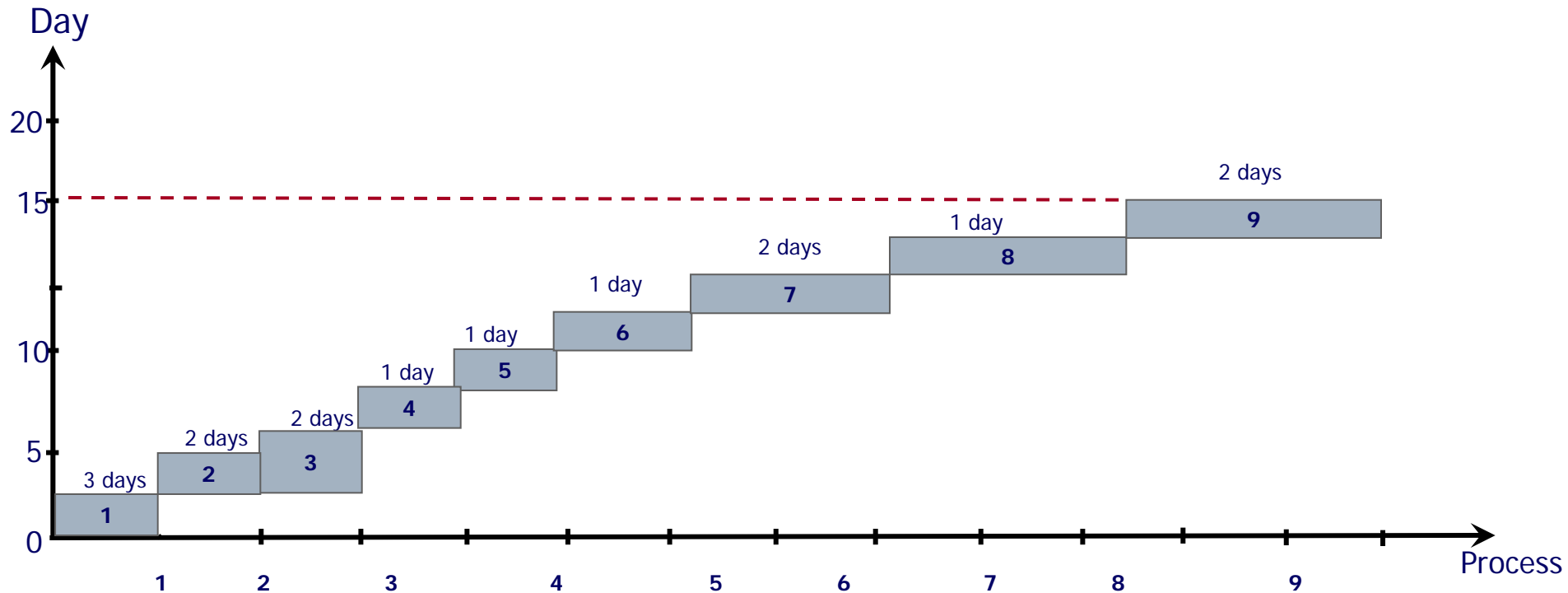
Make payment

Collect documents for import



Time-Procedure Chart

Importing Textiles to Japan from China



1. Visit factories and meet with potential suppliers
2. Conclude contract
3. Prepare export memo
4. Arrange inspection (depends on lot)

5. Arrange package and invoice
6. Provide customs declaration
7. Clear goods through customs
8. Verify the accuracy/authenticity of exported cargo
9. Pay - Claim payment of goods