

## Policy Issues Regarding the Promotion of **FTA Utilization** in Japan

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### 3 Conditions for Securing Economic Gains through FTAs

1. **Sufficient coverage of FTA partners**
  - Trade values, business needs
2. **Sufficient level of liberalization in each FTA**
  - Ratio of duty-free items/trade
3. **Sufficient level of utilization of FTAs by firms**
  - Costs & benefits of using FTAs for firms

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## Major Policy Discussion in Japan

### 1. Sufficient coverage of FTA partners

– *Which countries should JPN negotiate FTAs with?*

### 2. Sufficient level of liberalization in each FTA

– *Which items should be liberalized?*

### 3. Sufficient level of utilization of FTAs by firms

– *Have Japan's FTAs actually been used by firms?*

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## Outline

### 1. Introduction

### 2. Utilization ratio of FTAs in Japan

### 3. Examples of **transaction costs** associated with the use of FTAs

### 4. **Possible measures** for promoting FTA utilization in Japan

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1. Introduction

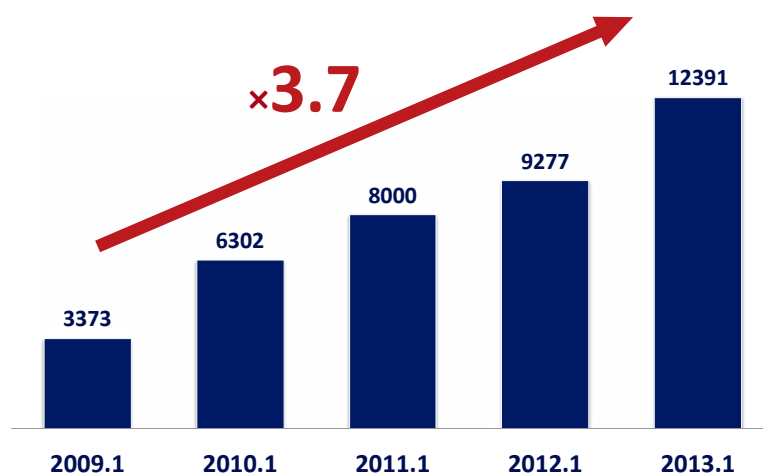
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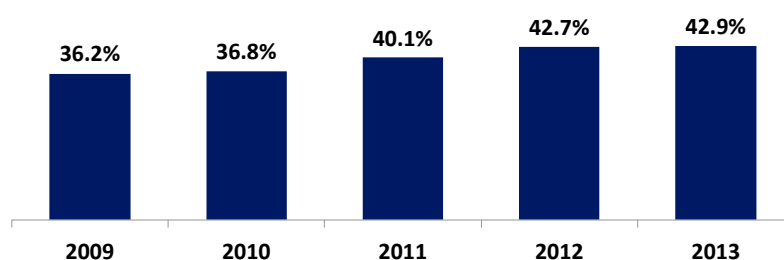
## No. of Certificates of Origin Issued



Source: The Japan Chamber of Commerce and Industry

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## FTA Utilization Rate in terms of no. of firms (Among firms engaged in trade with FTA partners)



Source: JETRO (2014) FY 2013 Survey on the International Operations of Japanese Firms

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## Reasons for *not* Using an FTA (1)

$$\underbrace{(\text{MFN Tariff} - \text{FTA Preferential Tariff})}_{\text{Preferential margin = Tax saving effects}} < \text{Cost of using the FTA}$$

Preferential margin = Tax saving effects

### 1. Small preferential margin (= Small tax saving effects)

#### 1) Low MFN tariff rate

- Already liberalized under the GATT/WTO

#### 2) High FTA preferential tariff

- Exempted from the liberalization even in the FTA
  - Japan: rice, wheat, dairy, sugar, etc.

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## Reasons for *not* Using an FTA (2)

(MFN Tariff – FTA Preferential Tariff) < Cost of using the FTA

### 2. Compliance costs of ROO

- Restrictiveness of rules of origin
  - Estevadeordal and Suominen (2008): Impacts of RoO on trade
  - Hayakawa (2014, JJIE): Bilateral vs Multilateral FTAs on utilization

### 3. Other transaction costs

- Searching/understanding FTA-related information
  - Tariff-saving effects, RoO, administrative procedures

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### 1. Introduction

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**STEP 1** for Potential User**Identifying the Correct HS Code**

- **HS code: commodity classification number**
  - 1<sup>st</sup> step for calculating **tax saving effects** of an FTA
- **Not fully internationally standardized**
  - e.g. HS code of “Saxophone”
    - VNM: 9205.90.90 (8 digits)
    - JPN: 9205.90.030 (9 digits)
    - USA: 9205.90.4040 (10 digits)
  - Exporters must identify / inquire the code of **importing** country (in English)
    - No search engine available in Japanese

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**STEP 1** for Potential User**Identifying the Correct HS Code**

WorldTariff<sup>SM</sup>  
HS Number Search ? クイックヘルプ 印刷版

Preferential Duties and Taxes for 8711.20.52 Entering Vietnam

仕向け国/輸出先  
Vietnam

品名  
87 - Vehicles other than railway or tramway rolling-stock, and parts and accessories

項  
8711 - MOTORCYCLES (INCLUDING MOPEDS) AND CYCLES FITTED WITH AN

テキスト motorcycles 番号  リセット Submit

Vietnam > Chapter 87 - Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof  
[Section Notes](#) [Chapter Notes](#) [End Notes](#)

輸入に課されるその他の税

Name	Tax Rate	Tax Note
VAT	10%	Basis of assessment is duty paid value.
SCT	20%	Basis of assessment is duty paid value.
Used Cars	Exempt	

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**STEP 1** for Potential User**Identifying the Correct HS Code**

HS Code	Description	Unit	Rate
100%	PARTS AND ACCESSORIES OF VEHICLES OF HEADING 8711 TO 8713:		
8714.19.00	- Of motorcycles (including mopeds): -- Other	unit	37%
100%	<b>MOTORCYCLES (INCLUDING MOPEDS) AND CYCLES FITTED WITH AN AUXILIARY MOTOR, WITH OR WITHOUT SIDE-CARS; SIDE-CARS:</b>		
8711.30.20	- With reciprocating internal combustion piston engine of a cylinder capacity exceeding 250 cc but not exceeding 500 cc: -- Three-wheeled light vehicles of a cylinder capacity not exceeding 356 cc and a payload capacity not exceeding 350 kg	unit	87%
100%	<b>MOTORCYCLES (INCLUDING MOPEDS) AND CYCLES FITTED WITH AN AUXILIARY MOTOR, WITH OR WITHOUT SIDE-CARS; SIDE-CARS:</b>		
8711.30.30	- With reciprocating internal combustion piston engine of a cylinder capacity exceeding 250 cc but not exceeding 500 cc: -- Other, CKD	unit	87%
100%	<b>MOTORCYCLES (INCLUDING MOPEDS) AND CYCLES FITTED WITH AN AUXILIARY MOTOR, WITH OR WITHOUT SIDE-CARS; SIDE-CARS:</b>		
8711.90.40	- Other: -- Side-cars	unit	85%
100%	<b>MOTORCYCLES (INCLUDING MOPEDS) AND CYCLES FITTED WITH AN AUXILIARY MOTOR, WITH OR WITHOUT SIDE-CARS; SIDE-CARS:</b>		
8711.10.99	- With reciprocating internal combustion piston engine of a cylinder capacity not exceeding 50 cc: -- Other: -- - Other	unit	87%

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**STEP 2** for Potential User**Identifying the Preferential Tariff Rate**

- **Preferential tariff rates change over time**
  - Phase-out period
  - MFN applied tariffs can also change
  - Tariff saving effects also change over time

**Preferential tariffs of Television (HS85287299) committed to by Vietnam**VJEPA, B8, Current applied MFN rate: **35%**

2009	2010	2011	2012	2013	2014	2015	2016	2017
36%	31%	27%	22%	18%	<b>13%</b>	9%	4%	Free

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**STEP 3** for Potential User**Comparing Multiple Trade Agreements**

- **Tariff rates varies across trade agreements**

- e.g. Exports from Japan to Vietnam

- MFN (WTO), AJCEP (ASEAN+JPN), JVEPA, RCEP?, TPP?
- Exports from 3<sup>rd</sup> countries to Vietnam?
- Different tariff saving effects

**Preferential tariffs of Television (HS85287299) committed to by Vietnam**Current applied MFN rate: **35%**

	2009	2010	2011	2012	2013	2014	2015	2016	2017
JVEPA	36%	31%	27%	22%	18%	<b>13%</b>	9%	4%	Free
AJCEP	31%	27%	22%	18%	13%	<b>9%</b>	4%	Free	Free

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**STEP 3** for Potential User**Comparing Multiple Trade Agreements**

- **MFN tariff rate < Preferential tariff rate ?**

- Due to unilateral liberalization

**Preferential tariffs of Motorcycle (HS87112032) committed to by Vietnam**Current applied MFN rate: **75%**AJCEP: **90%**JVEPA: **90%**

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**STEP 4** for Potential User**Understanding and Comparing RoOs**

- **Procedure for obtaining certificate of origin**
- **RoOs may differ by partner country**
  - Even for the same item

**RoOs for Color TVs**

Japan-ASEAN:	<b>40%</b> of RVC (Regional Value Content)
Japan-Malaysia:	<b>40%</b> of RVC
Japan-Chile:	<b>40%</b> of RVC or CTC (Change of tariff classification) at the <b>4-digit</b> level
Japan-Mexico:	CTC at the <b>4-digit</b> level
Japan-India:	<b>35%</b> of RVC or CTC at the <b>6-digit</b> level

Source) METI, *White Paper on International Economy & Trade, 2014*

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**1. Introduction****2. Utilization ratio of FTAs in Japan****3. Examples of transaction costs  
associated with the use of FTAs****4. Possible measures for  
promoting FTA utilization in Japan**

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## Possible Measures

- **Obtaining further economic gains from FTAs requires**
  - Expanding FTA partners
  - Expanding coverage of duty-free items
  - **Expanding the users of the FTAs**
    - Including **SMEs** with limited human resources
    - By minimizing costs of using FTAs (transaction costs)

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## Possible Measures

- **“Automatic Notification Service” by Customs**
  - Alert system for exporters (Korea’s experience)
    - Pop-up message on the e-clearance system screen
    - *“This item is subject to FTA tariff in importing country!”*
    - Informing both FTA tariff rate and MFN rate

Source: Lee (2014) “Korea Customs’ FTA Program for SME”, Korea Customs Service.

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## Possible Measures

- **One-stop portal site for FTA “users”**
  - Consolidating fragmented and overlapping info.
    - MOFA, METI, MAFF, MOF
    - Japan Customs, JETRO, JCCI, FeDEX
    - Foreign governments
  - Providing search engines for
    - HS codes
    - MFN/FTA tariff rates (current + future)
    - ROO provisions in Japan and partner countries

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## Possible Measures

- **Easy to use “FTA Tariff Calculator”**
  - Calculating tariff savings (Singapore’s experience)

### Selecting Partner Country and Inputting Keyword(s)

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## Possible Measures

- Easy to use “FTA Tariff Calculator”
  - Calculating tariff savings (Singapore’s experience)

**Identifying HS Code & FTA Tariff Rate in Partner Country**

HS Code	Product Description	MFN Rate	USFTA Pref Rate
9205904040	Saxophones	4.9%	0.0%

Back Next: Key in value of your exports →

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## Possible Measures

- Easy to use “FTA Tariff Calculator”
  - Calculating tariff savings (Singapore’s experience)

**Inputting Total Export Value**

You have selected HS Code: 9205904040

Product description: Saxophones

Total Value: \$ 50000  
e.g. 1230 or 1230.00

Back Next: View your tariff savings and relevant ROO →

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## Possible Measures

- **Easy to use “FTA Tariff Calculator”**
  - Calculating tariff savings (Singapore’s experience)

**Potential Tariff Savings! + RoOs**

HS Code: 9205904040  
Product description: Saxophones

Year	Total Value (\$)	MFN Rate (%)	USSFTA Pref Rate (%)	Potential Tariff Savings under USSFTA (\$)
2011	50000	4.9%	0.0%	2450

USSFTA Rule of Origin: Change to heading 9205 from any other heading except from heading 9209 when that change is pursuant to General Rule of Interpretation 2(a).

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## Conclusion

- **Benefits of promoting FTA utilization**
  - Increasing the number of users
    - = Increasing the number of beneficiaries of FTAs
    - = Expanding the number of supporters for future trade liberalization & regional economic integration

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