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The Influence on Japanese Companies by East Asian FTAs, and an Overview of East Asian Countries' Tariff Rates

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CONTENTS

I. Introduction

In recent years, East Asian countries, including ASEAN members, Japan, China, and Korea, have become active regarding FTA (Free Trade Agreement) negotiations. When such FTAs are formed in the near future, what influence will they have on Japanese companies' business?

In the formulation of an FTA in East Asia, Japanese companies receive many merits from tariff abolition, deregulation of foreign investment, trade facilitation, strengthened intellectual property rights, and so on, in the East Asian area. However, to obtain such merits, Japanese companies must also restructure their organization, supply chain management, production bases allocation, utilization of human resources, etc., to cope with the new FTA world in East Asia. On the other hand, Japanese companies may suffer great demerit due to the outbreak of a severe competitive condition in the East Asian market, through tariff abolition, deregulation, and other measures taken by the country in the area.

In view of the above, in this paper, I discuss the influence on Japanese companies by East Asian FTAs in the near future, utilizing recent company surveys conducted by JETRO. I describe what Japanese companies expect, what they are influenced by, and what strategy will be examined further when FTAs are formed in East Asia.

Through the surveys, I have found that Japanese companies have much interest in tariff rates in East Asia. Why are Japanese companies greatly interested in tariff rates? I think it is because there is generally, still, a high tariff rate condition in East Asia, and tariff rates are quite visible as a trade barrier for companies that engage in trade business. Next, considering the interest in tariff rates of Japanese companies, I also analyze the present condition of tariff rates of selected countries in East Asia.

The composition of this paper is as follows. Following this Chapter I, as the introduction, Chapter II is an overview of Japanese FTAs. In Chapter III, I describe what a Japanese company expects, what is influenced in a Japanese company, and what strategy a Japanese company has in the formulation of FTAs in East Asia, through a questionnaire submitted to Japanese companies. In Chapter IV, I examine the tariff rate levels of selected countries in East Asia, and what point the feature is, using IAP data of APEC.

II. Current Condition of Japanese FTAs

Japan started formal FTA negotiations with Korea on December 20-22, 2003. Although Japan has weak points in the fields of fishery industry, and Korea has concern about its industrial sectors, such as machinery and electronics, that will suffer from severe competition with Japanese industries, both countries intend to conclude the negotiations by the end of 2005.

Japan also agreed to start formal FTA negotiations with Thailand, the Philippines, and Malaysia, respectively, at the Japan-ASEAN Special Summit Meeting held in Tokyo on December 10, 2003. The first meetings of each negotiation with these three ASEAN countries were held from mid-January to late-February 2004. Each negotiation will continue till the end of this year, at least. Of these three ASEAN countries, Thailand is the most aggressive toward opening the Japanese agricultural market. Thailand wants free access to Japan for chicken meat, starch, and rice, and it also wants to send some types of labor, like massagers, care workers, nurses, and house helpers. As for the trade relation between Japan and Thailand, the Japanese import ban measure against chicken meat, due to avian influenza, needs to be treated carefully, apart from FTA negotiations. The Philippines requests the same category toward Japan regarding labor types, and of course seeks greater export potential for tropical fruit, like banana and pineapple. Japan wants these three countries to abolish tariffs on industrial goods and introduce new comprehensive foreign investment rules. It will not be easy for both parties to agree with each other's requests in the short term.

Apart from those bilateral FTA negotiations, Japan is trying to create a Japan-ASEAN-wide FTA, the so-called Japan ASEAN Comprehensive Economic Partnership (JASCEP). Japan and ASEAN members have agreed on a framework agreement, in the Japan-ASEAN Summit last October in Bali, Indonesia. Inter-governmental preliminary deliberations, such as statistics maintenance between Japan and ASEAN, will start from mid-February 2004, and it has been decided that formal negotiations will begin in 2005, toward completing JASCEP by 2012 (by 2017 with CLMV).

On the other hand, China has already started FTA negotiations with ASEAN, toward a conclusion in 2010. China is ahead of Japan in East Asia regarding FTA

transactions.

Such movements by Japan and China are considered as a trigger to conclude an ASEAN+3 FTA, including Japan, China, and Korea, and to also lead to an East Asian Free Trade Agreement that will also include Hong Kong, Taiwan in the future.

Although the main structure of an FTA is originally based on tariff abolition, what Japan now seeks is a Comprehensive Economic Partnership Agreement (CEPA), which is not only based on tariff abolition but also incorporates liberalization of service trade or investment, smooth conduction of customs procedures, harmonization of a standard and code, mutual recognition of special qualifications, creation of a government procurement rule, cooperation in the intellectual property rights fields, etc. By creating such an FTA, extensive improvement of business conditions must be brought to Japanese companies.

However, especially in East Asia, many trade and investment barriers still exist. Although East Asian countries must remove such barriers altogether in order to establish an FTA or EPA in this region, there is still a wide range of barriers, with sensitivities that are totally different from country to country, or industry to industry. Therefore, it is not easy to realize a comprehensive FTA or EPA in East Asia.

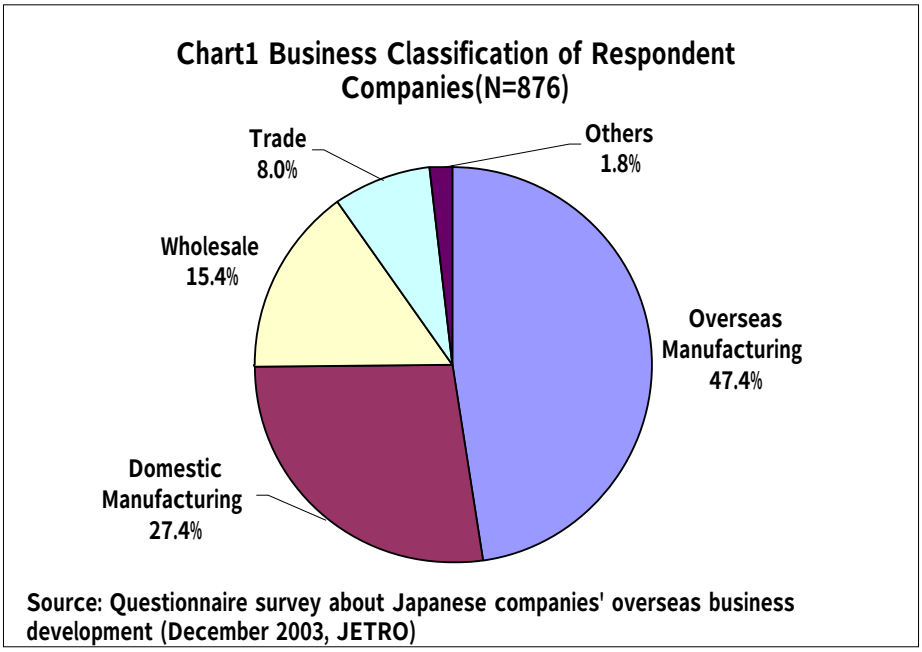
III. Survey on the Strategy of Japanese Companies toward East Asian FTAs

From November to December 2003, JETRO conducted a survey, named the "Questionnaire Survey about Japanese Companies' Overseas Business Development." The survey targeted 2,538 Japanese companies engaging in manufacturing, trade, or wholesale or retail sales (with headquarters in Japan), and responses were received from 876 companies, in total (an effective response ratio of 34.5%).

Four major points were addressed in the survey: No. 1 was the company's business outline, and its overseas business activities; No. 2 was the company's business with East Asian countries (especially regarding the Asian consumer market); No. 3 was the influence of FTAs on the company's business; and No. 4 was the company's China-related business. In this paper, I concentrate on describing the result of No. 3: "the influence of FTAs," in particular.

III-1. Characteristics of the Respondent Companies

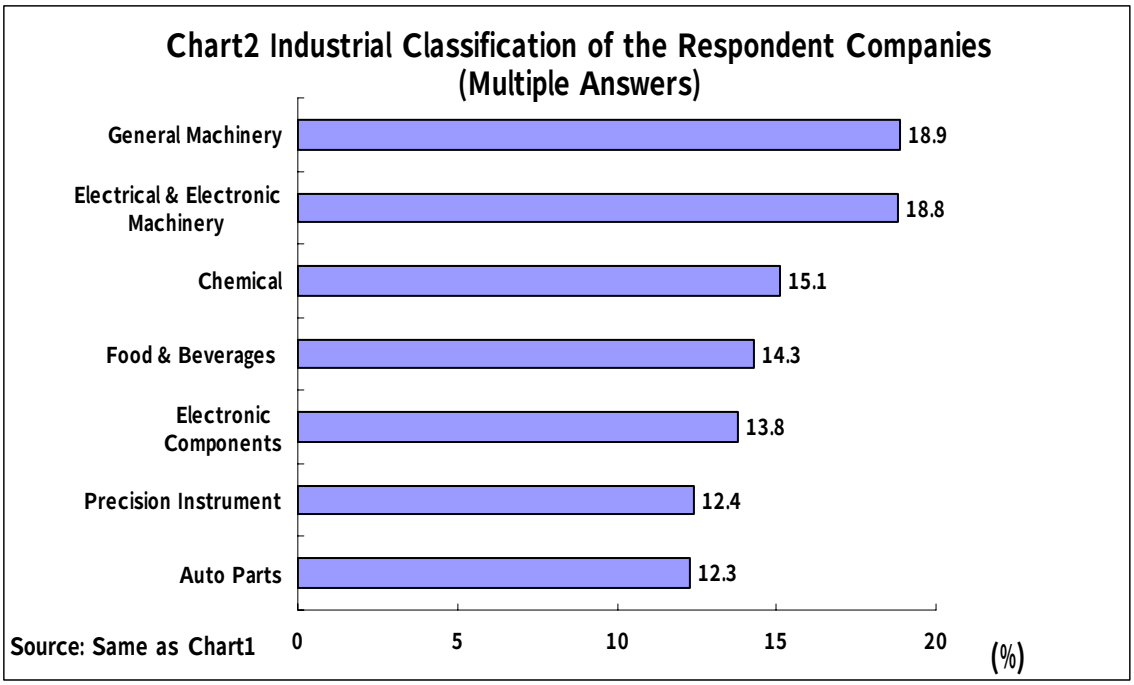
A total of 876 companies answered the survey. The business classification of the respondent companies is shown in Chart 1. The number for manufacturing industry performing overseas production was 415 companies (a share of 47.4%), representing almost half of all responses. The number for manufacturing industry performing only domestic production in Japan was 240 companies (27.4%), representing one-fourth of all responses. The number for the wholesale industry was 135 companies (15.4%), and 70 companies for the trade industry (8.0%). These together represent almost one-fourth of the responses. There were also 16 other companies (1.8%).



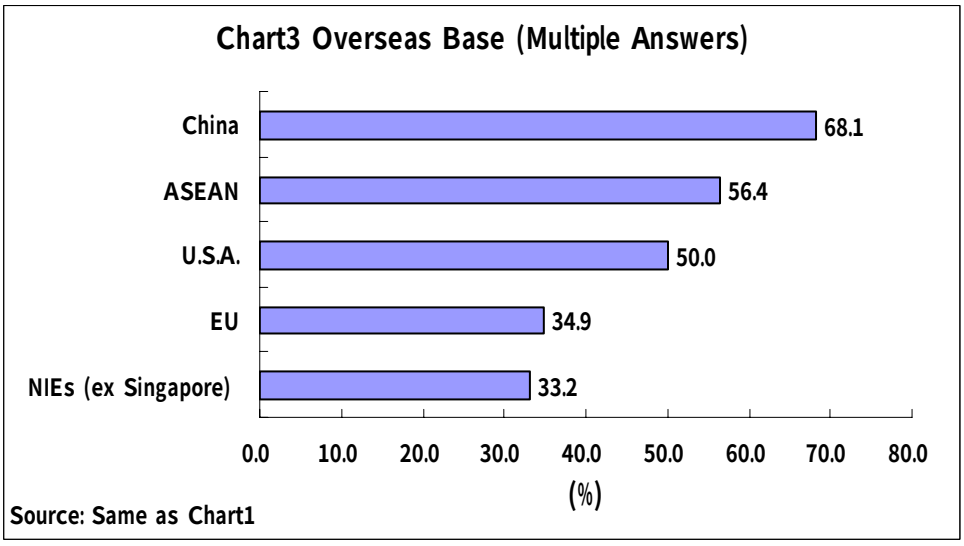
The industrial classification of the respondent companies was in the order of general machinery (18.9%), electrical and electronic machinery (18.8%), chemicals (15.1%), food and beverages (14.3%), electronic components (13.8%), precision instruments (12.4%), and auto parts (12.3%) (see Chart 2).

As for the scale of the respondent companies, big business had a 23.2% share. Middle-sized companies represented 45.9% of the total, and small and medium-sized enterprises represented 30.9%[1].

[1] As for the case of a manufacturing industry, the classification is the following. Big business: 1,001 or more employees and the capital of 300 million yen or more. Medium-sized company: 301 or more with less than 1,000 employees and the capital of 100 million yen or more with less than 300 million. Small and medium-sized enterprises: less than the conditions of medium-sized companies.



The survey asked about overseas bases of the respondents companies (see Chart 3): 74.9% of them had overseas bases, while 25.1% did not. The survey also asked about the location of overseas bases. Most were in China (68.1%), followed by ASEAN (56.4%), the U.S. (50.0%), the EU (34.9%), and the NIEs (Korea, Taiwan, and Hong Kong) (33.2%), in order. In ASEAN, the rate for Thailand was 26.7%, and that for Singapore was 20.6%. As to NIES, the rate for Taiwan was 18.4%, and that for Korea was 13.9%. The survey result showed that 87.3% of the companies that have overseas bases have at least one in East Asia.



As to the installation purpose or form of overseas bases, 68.4% were manufacturing or processing bases, and 64.4% were sales bases. The survey asked about the year 2002 ratio of overseas sales of companies' total revenue, and domestic was 75.7%, while overseas was 24.3%. Sales in East Asian countries represented 42.4% of all overseas sales, and 10.3% of companies' total sales. And, 38.8% of the respondent companies that have overseas sales, have ratios of over 51% for East Asia. But, a share of 46.2% of all responding companies has less than 10% in terms of overseas sales ratio. Therefore, the contribution of overseas sales itself is not great among the respondent companies. However, the contribution of East Asia of overseas sales is not small among the respondent companies.

III-2. The Respondent Companies' Business Activity in East Asia

The survey asked about the business activity with East Asian countries, including transactions between parent and subsidiary companies. A share of 94.2% of the respondent companies conduct business with countries in East Asia. Then, the survey asked what business is performed in East Asia. The results are shown in Table 1.

Table1 Business activity in East Asia

Products	Form	Share(%)
Final Products	Manufactured or processed in Japan and exported from Japan to East Asia.	58.7
	Manufactured or processed in East Asia and imported from East Asia to Japan.	48.6
	Manufactured or processed in East Asia and sold in domestic of the country.	26.9
	Manufactured or processed in East Asia and exported to another country within	26.8
	Manufactured or processed in East Asia and exported to third parties such as the	19.9
Materials, Parts	Manufactured or supplied in Japan and exported from Japan to East Asia.	53.4
	Manufactured or supplied in East Asia and imported from East Asia to Japan.	46.8
	Manufactured or supplied in East Asia and exported to another country within East	16.3
	Manufactured or supplied in East Asia and sold in domestic of the country.	11.1
	Manufactured or supplied in East Asia and exported to third parties such as the	8.9
Technologies, Loyalties	Developed or supplied in Japan and exported from Japan to East Asia.	18.7
	Developed in supplied East Asia and imported from East Asia to Japan.	1.6

Source: Same as Chart1

Table 1 shows that the core of business with East Asia is represented by exporting final products (58.7%), and materials and parts (53.4%), from Japan to East Asia. More products, compared with materials and parts, are exported from Japan. However, there are many import materials, as well as parts and final products, from East Asia to Japan. Only a 25.7% share of all the companies are concentrated on "Export from Japan," while 51.4% engage in both export and import with East Asia. Therefore, the survey

result shows that many companies conduct interactive business between Japan and East Asia. As for companies with overseas bases, the interactive trade ratio between Japan and East Asia rises to 66.7% from 51.4%. On the other hand, technology transfer and loyalty business is not interactive between Japan and East Asia. There are more companies exported technology from Japan (18.7%) and very few companies imported from East Asia (1.6%).

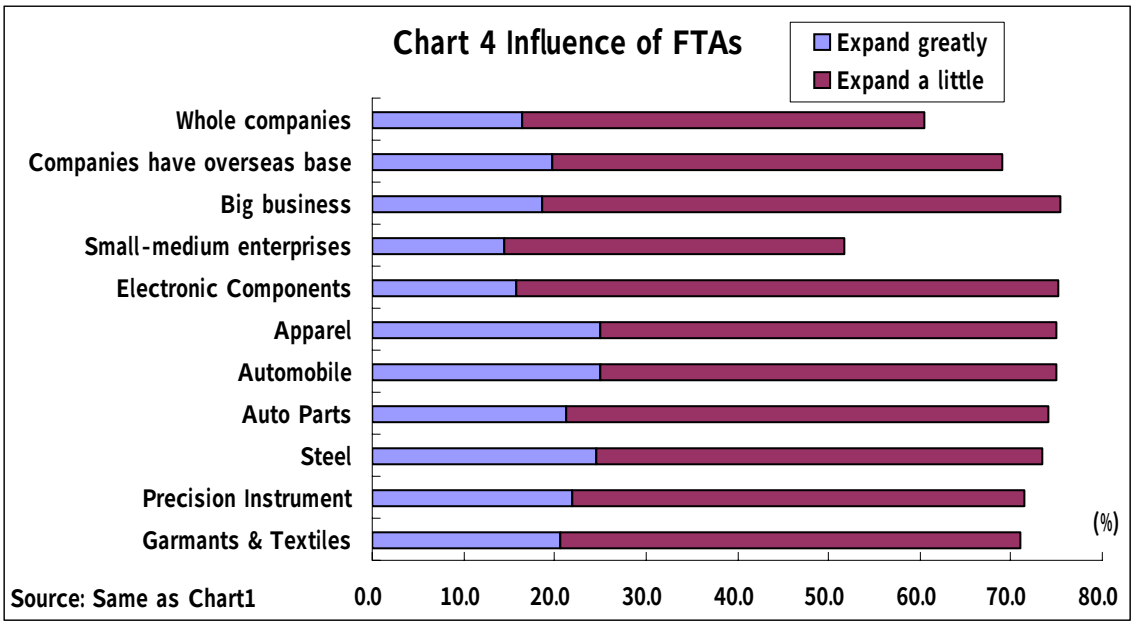
From the viewpoint of company size, the survey result clearly shows that big business more actively conducts business with East Asia, compared with medium-sized companies, or small and medium-sized enterprises. The interactive trade ratio between Japan and East Asia by big business is 64.0%. The same ratio for medium-sized companies is 55.2%, and that for small and medium-sized enterprises is only 35.8%.

As for business activity in respective industrial goods, general machinery ranks at the top (78.9%) for export from Japan to East Asia. Next is transportation machinery (69.2%), followed by electrical & electronic machinery (67.3%). Automobiles rank at the top for manufacturing final products in Japan and export to East Asia (41.7%). Electrical & electronic machinery ranks at the top for export from East Asia to third parties, for example Western countries (38.2%). Wood & woods products (82.6%) and Apparel (82.1%) rank high for import from East Asia to Japan. As for materials and parts, non-ferrous metals rank at the top in terms of both export from Japan (85.7%) and import to Japan (70.0%). Number two for export from Japan is electronic components (81.0%), and number two for import from East Asia is steel (65.3%).

III-3. The Influence of FTAs

III-3-(1). East Asian FTAs' Influence on Japanese Companies

Regarding Japanese FTAs with East Asian countries, the survey asked if a company's business opportunities would expand, overall, with increased sales or improved profits, etc., in East Asia, Japan, or third party countries, when Japan concluded a FTA with any country in East Asia, such as ASEAN, Korea, and China, individually or comprehensively (see Chart 4).



A 16.4% share of the respondent companies answered “Expand greatly” to this question, and 44.1% of the companies answered “Expand a little.” The companies that answered both “Expand a little” and “Expand greatly” represented 60.5% of all responses. The share of companies having overseas bases that responded “Expand” was 69.0%, which is higher than the total average (60.5%). Of course, big business answered “Expand” at a higher ratio, of 75.4%, compared with small business, which was only 51.7%, which is below the average. The top five industries that answered “Expand” were electronic components, apparel, automobiles, auto parts, and steel, in that order. The ratio for “Expand” for those industries is above 70%.

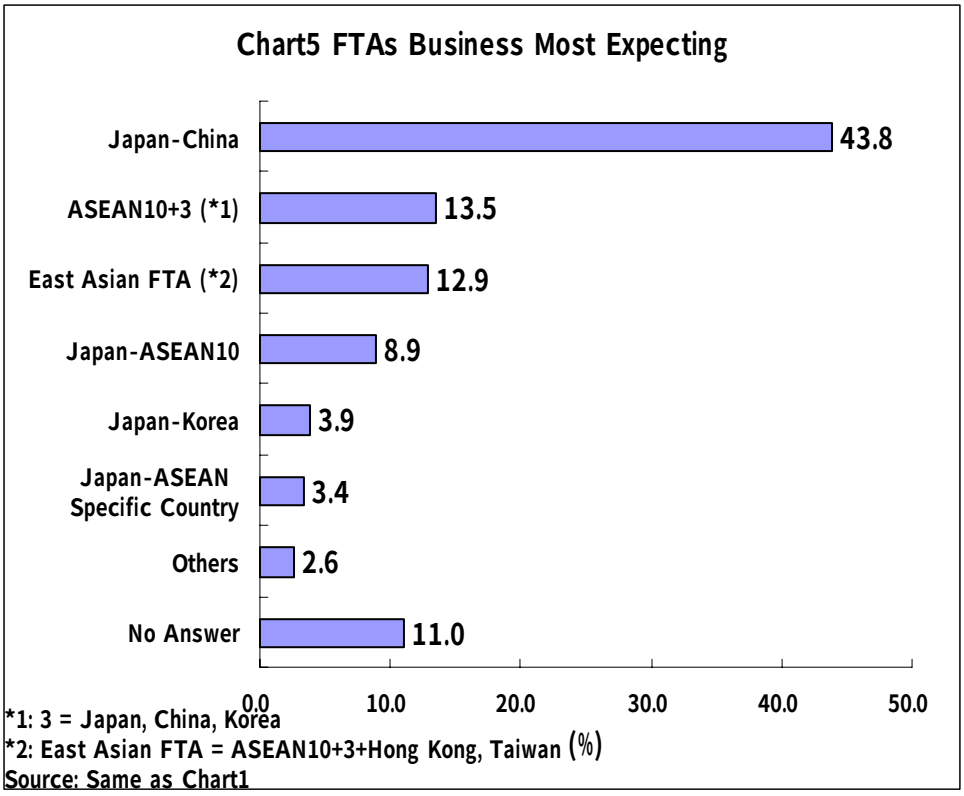
Conversely, only 2.0% of the companies answered “Decrease a little” and “Decrease greatly.” “No particular change (or with no change by a setoff)” was given as an answer by 25.8% overall, and “No relation with business” was given by 6.6%.

The result shows that about 60 percent of the companies expect business opportunities to expand when Japan connects with an FTA to East Asia. The message from the respondent companies was that, if Japan connects with an FTA to East Asian countries, even in the worst case, the companies will not suffer much disadvantage? In addition, the rate for “No change” and “No relation with business” was 32.4% overall. The result also shows that one-third of the respondents do not think they are not influenced by Japanese FTAs.

III-3-(2). East Asian FTAs Japanese Companies Expect

The answer result shows the most common overseas base location to be China (68.1% of the respondent companies). Therefore, it can be presumed that the most business transactions take place between Japan and China.

Consequently, the answer "a Japan-China FTA" had the largest share, of 43.8%, for an FTA expected to give the best business opportunities (see Chart 5). A Japan-China FTA is most desirable for all business classifications, all company sizes, and all industries, with automobiles the only exception. The automobile industry has greater expectations of an ASEAN10+3 FTA, compared with a Japan-China FTA. Next to a Japan-China FTA, the continuous answer was an ASEAN10+3 (Japan, China, and Korea) FTA (13.5%), the East Asia Free Trade Area (ASEAN10+3+Taiwan and Hong Kong) (12.9%), a Japan-ASEAN FTA (8.9%), a Japanese-Korea FTA (3.9%) and a Japan-ASEAN Specific Country FTA.



The survey result shows that a China-related FTA, such as Japan-China, ASEAN+3, and the East Asia Free Trade Area, is frankly desired by businesspeople. Moreover,

when the linkage between the influence of FTAs and the expected FTAs is considered, the survey result shows that companies that responded “Expand greatly” or “Expand a little” tend to expect more wide-ranging FTAs, such as ASEAN+3 or the East Asia Free Trade Area. The business world's opinion is concluded to be that an FTA with a country has great potential and is most desirable.

III-3-(3). Business Merits and Demerits of an FTA

The questionnaire asked companies what merits or demerits they would expect if Japan concluded FTAs with respective countries or the area itself in East Asia. The five highest ranks are shown in Table 2.

Table2 Business Merit and Demerit of FTA

M/D	Contents	Share(%)
Merit	By tariff abolition of a partner country, the competitive power of the company's goods in a partner country market increases, and sale is expanded (or sale is started newly).	54.5
	By simplification and facilitation of customs formalities, cost reduction becomes possible and leads to an improvement of profitability.	42.7
	By tariff abolition of Japan, import costs fall, such as a product, parts, etc. from a partner country to Japan and it leads to an improvement of profitability.	22.3
	By improvement in the transparency of the investment related rule of a partner country, smooth business becomes possible and the incentive of investment expands.	20.4
Demerit	Inflow of the competition goods from a partner country and entry of a competition company increase, price competition intensifies, and the profit of its company falls in a Japanese market.	19.4

Source: Same as Chart1

The answers were as follows: “By relief from foreign company entry regulation (restricted entry of a type of industry, regulation of the ratio of investment) of a partner country, new investment or additional investment is attained” (a share of 17.7%), “Due to increased inflow of competitive goods from an FTA-concluding country (Japan is included), and entry of competitive companies, price competition intensifies, and the profit of a company falls in the partner country and an area” (15.6%), and “Loyalty business is expanded by greater protection for intellectual property rights in the partner country” (14.3%).

A share of 58.9% of the companies said that only merits would come from an FTA. A share of 24.8% of the companies said there would be both merits and demerits. The share for only demerits was 3.9% of the companies. The “no relation” share was 4.9%. These results indicated that almost 60 percent of the respondents feel an FTA would bring merits.

The above-mentioned results made it clear that the respondent companies’ concern

is focused on the abolition of customs duty (tariff rates), which is a fundamental agreement of FTAs. The company obtained a tariff abolition merit from not only a partner country but also from Japan. Adding these two merits, it will amount to no less than a total share of 76.8%. Moreover, there were many answers that improvement of customs formalities is a merit of FTAs, apart from tariff rate abolition itself. It turns out that Japanese companies have high expectations regarding the tariff issue, such as tariff abolition, and customs-formalities improvement, when an FTA is concluded with countries in East Asia.

III-3-(4). Companies' Overview on a China-ASEAN FTA

The conclusion of a China-ASEAN FTA is likely to precede a Japan-ASEAN FTA. The survey asked if business opportunities for a company would be expanded by the conclusion of a China-ASEAN FTA, in terms of increased sales in East Asia, improvement of profit in Japan, improvement of profit by a third party, etc. The answer was a share of only 4.5% for "Expand greatly," and 24.4% for "Expand a little." Together, these two equal about 29%. There were few replies of "Expand" regarding China-ASEAN FTAcompared to a FTA connected to Japan. There were also many answers of "No particular change" (or with no change by a setoff), at 36.1%. Moreover, there were "Decrease greatly," 2.7%; "Decrease a little," 12.3%; and further, the answer "No relation to the company's business" also reached 13.2%. Summarizing these, it can be seen that "Not related" and "No change" had a 49.3% share of all responses, representing almost half. This result shows that many companies have not yet formed a clear prospect regarding if a China-ASEAN FTA will be a merit or demerit for the company, although the ratio of "Expand" by the companies that have overseas base is relatively high, at 37.6%.

IV. Tariff Rates in East Asia

IV-1. Function and Economic Effect of Tariffs

Tariffs are taxes imposed when goods are imported, and they represent a typical trade barrier. Before advancing to the main subject, I will summarize the function of a tariff, and the economic effect a tariff brings, by quoting and arranging an applicable portion

of the "2003 Report on the WTO Consistency of Trade Policies by Major Trading Partners," edited by the Ministry of Economy, Trade, and Industry (METI, Japan).

Function of Tariffs

Tariffs have three primary functions: (1) to serve as a source of revenue; (2) to protect domestic industries; and (3) to remedy trade distortions (punitive function).

As to the revenue function, income from tariffs provides governments with a source of tax revenue. In the past, the revenue function was indeed a major reason for applying tariffs, but economic development and the creation of systematic domestic tax codes has reduced its importance in developed countries. For example, Japan generates about 900 billion yen in tariff revenue per year, but this is only 1.8 percent of its total tax revenues (FY2001 final accounts base). In some developing countries, however, revenue generation may still be an important function of tariffs.

Tariffs are also a policy tool used to protect domestic industries by changing the conditions under which goods compete, in such a way that competitive imports are placed at a commercial disadvantage. In fact, a cursory examination of the tariff rates used by different countries does seem to indicate that they reflect, to a considerable extent, the competitiveness of domestic industries. In some cases, "tariff quotas" are used to strike a balance between market access and protecting domestic industry. Tariff quotas work by assigning low or no duties to imports up to a certain volume (primary duties), and then higher rates (secondary duties) to any imports that exceed the initial import volume level.

In principle, the WTO bans the use of quantitative restrictions as a means to protect domestic industries, but it does allow tariffs to be used for this purpose (3). This is because tariffs are still considered to be more desirable than quantitative restrictions.

Punitive tariffs may be used to remedy trade distortions resulting from measures adopted by other countries. For example, the Antidumping Agreement allows countries to use "antidumping duties" to remedy proven cases of injurious dumping; similarly, the Subsidies Agreement allows countries to impose countervailing duties when an exporting country provides its manufacturers with subsidies that, while not specifically banned, nonetheless damage the domestic industry of an importing country.

The Economic Effect of Tariffs

The most basic effect of an import tariff is to raise domestic prices in the country imposing the tariff. In "small countries" (defined for our purposes as countries that do not influence world prices), the rise in the domestic price is equivalent to the amount of the tariff. In "large countries" (those that have an impact on world prices), the price rise is somewhat less than the amount of the tariff, because the tariff will reduce demand, which reduces world prices.

The rise in domestic prices expands domestic production of the imported good, while at the same time decreasing demand for it. Tariffs benefit competing domestic producers, but harm consumers. Obviously, the importing country also generates tax revenue from the tariff.

Tariffs have different benefits and costs to different groups within an economy; the relative sizes of these benefits and costs will create changes in the economic welfare of the importing country as a whole. For "small countries" with no influence on world prices, the imposition of a tariff necessarily reduces economic welfare, but for "large countries" a tariff may, in some cases, improve economic welfare, because world prices are depressed, thereby improving terms of trade. If tariffs are sufficiently low, the improvement in terms of trade will always be greater than the cost of the tariff, and there is, in theory, an "optimal tariff" that will maximize economic welfare. However, an improvement in one country's terms of trade corresponds to deterioration in the terms of trade of other countries, and therefore a reduction in the economic welfare of trading partners. This may trigger retaliatory measures by trading partners.

When goods are produced using imported raw materials, the tariff rate on a finished good itself does not generally constitute the level of protection that the finished good enjoys. Tariffs on the raw materials must also be taken into account. If the tariff on the raw materials is lower than the tariff on the finished product, the level of protection afforded the finished product is higher than the tariff rate on the finished product would suggest (protection rates that take account of tariffs on raw materials are called "effective protection rates"). It should be underscored, therefore, that even low tariff rates can provide full-fledged protection for domestic industries.

IV-2. Tariff Rates of Selected Countries in East Asia

IV-2-(1). Simple Applied Tariff Rate

From the viewpoint that expanded free trade raises the welfare of the whole world economy, the level of tariff rates has been globally reduced gradually through GATT negotiations since 1947. Recently, an average tariff reduction of 33% was used in the industrial goods sector, as a result of agreement in the Uruguay Round in 1987 – 1993, in which 123 countries and the area participated.

Moreover, in the Asia-Pacific region, in the “Bogor Declaration” announced by the non-formal 2nd Asia Pacific Economic Cooperation (APEC) leaders’ meeting in 1994, an aim was set for the developed countries, among APEC member nations, to abolish trade and investment barriers by 2010, and for developing countries to abolish them by 2020. The content of the Bogor Declaration took shape as the Osaka Action Plan at the APEC Osaka meeting in the following year, 1995. An APEC member is obligated to adopt an individual action plan (IAP), after 1996, and to report improving points and the future plan once a year.

Further, the ASEAN Free Trade Area (AFTA) of ASEAN set up the Common Effective Preferential Tariff (CEPT). With the removal of temporary exclusion items, import restrictions items of agricultural products, and national security-related items, six ASEAN nations (Thailand, Indonesia, Malaysia, the Philippines, Singapore, Brunei) will cut the inter-regional tariff rate to 0 - 5% by 2003; Vietnam will cut it by 2006; Laos and Myanmar will cut it by 2008, and Cambodia will do so by 2010, regarding items of ASEAN origin (items that represent 40% or more in rate for the place of origin within ASEAN). In AFTA, six nations of ASEAN will abolish all tariff rates at the target, substantially by 2010, and four nations of new affiliation will do the same by 2015. However, the AFTA measure is accepted only within the area as a matter of course, and each ASEAN country has applied MFN tariff rates to an extraterritorial country in the WTO.

Generally, the tariff rates of the countries that constitute East Asia are high, except for Japan and Singapore. Since these countries attained industrialization by import substitution as part of their economic development policies, their tariffs were more highly set up to protect domestic industries. Although the tariff rates of each country tend to decline as a result of Uruguay Round agreement, they remain high.

The simple applied tariff rate (a numerical value that totaled the tariff rate of each tariff line simply, and that was divided by the number of lines) in the IAP report of APEC, in 2003, the each tariff rate of China, South Korea, Thailand, and Vietnam, is a double digit (see Table 3). The figures have not fallen much since 1996.

However, China's tariff rate is 11% -- the lowest of these double-digit countries. China reduced the tariff rate from 35.9% to 23% in 1996, and also since then, the rate has been reduced gradually. Based on accession agreement to the WTO in December 2001, the tariff rate on 5,300 lines of items was reduced on January 1, 2002, and the simple average tariff rate fell to 12%, from 13.6%. Tariff reduction on 3,019 lines of items, which became the second time after accession based on agreement, was performed in 2003, and the simple average tariff rate fell to as low as 11%. China is making a commitment to lower the simple applied average tariff rate, to even 9.8%, in 2010, only from the content of agreement of accession negotiations, apart from the Doha Development Agenda (new round) currently being negotiated.

Table3 Average Applied Tariff Rates(%)

	1996	2003
Japan	5.0	3.5
China	23.0	11.0
Korea	14.4	13.3
Singapore	0.0	0.0
Thailand	18.6(1)	15.9
Malaysia	9.0	9.3
Indonesia	13.0	7.2
Philippines	14.0	5.3
Vietnam	17.3(2)	16.5

Notes:(1)1999, (2)1998
Source:APEC IAP

Although it is 3.5% if viewed as a simple applied average tariff rate, since Japan has imposed a high tariff duty on some agricultural products, such as rice (490%) and *konnyaku-imo* (990%), the import-weighted average tariff rate is 1.7% for non-agricultural products, including forest products and fishery products, and it is only 1.5% for industrial products solely (the average tariff rate of agricultural products is 12%). The level of such a tariff is the lowest among major industrialized countries. Since Singapore has a free trade policy, no tariffs are imposed, except for six specific liquor items, such as beer (however, in Singapore, a high domestic tax (excise tax) rate is imposed on many items, such as automobiles).

IV-2-(2). Average Tariff Rates Classified by Countries and Items

The sectors with high tariff rates are agricultural products, except fishery items; transportation machines, fiber and clothing, and leather, rubber, footwear, and travel items, in descending order. As to agricultural products, the average tariff rates of Korea, Thailand, Vietnam, Japan, and China are in double digits. Although the overall average tariff rates of Thailand and Vietnam are also high, the highest agricultural products tariff rates belong to Korea and Japan. The tariff rates for transportation machines of Malaysia, Thailand, Indonesia, China, and Vietnam are quite high (see Table 4).

Table4 Simple Average Applied Tariff Rate 2003 by Products Line(%)

	All Goods	Agriculture excluding Fish	Fish and Fish Products	Petroleum Oils	Wood, Pulp, Paper and Furniture	Textiles and Clothing	Leather, Rubber, Footwear and Travel Goods	Metals	Chemical & Photographic Supplies	Transport Equipment	Non-Electric Machinery	Electric Machinery	Mineral Products, Precious Stones &	Manufactured Articles, n.e.s
Japan	3.5	21.5	6.0	3.5	1.7	7.0	20.5	1.0	2.5	0.1	0.0	0.2	0.9	1.3
China	11.0	16.8	12.2	6.1	7.0	15.2	13.6	7.4	7.4	15.9	8.6	9.9	9.4	12.3
Korea	13.3	52.2	16.8	5.8	3.7	9.8	8.9	5.2	7.0	6.0	6.1	5.5	6.0	6.4
Singapore	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Thailand	15.9	27.4	5.4	3.3	14.7	21.4	19.5	12.2	5.6	26.0	1.0	11.5	7.4	14.4
Malaysia	9.3	3.1	1.9	0.5	2.5	13.4	12.5	17.4	5.8	48.1	6.0	8.9	0.0	7.5
Indonesia	7.2	8.6	5.0	5.0	4.1	10.5	6.6	8.1	5.5	17.0	2.3	6.1	4.6	7.7
Philippines	5.3	7.0	7.1	2.6	6.0	9.5	5.6	4.5	3.6	8.1	2.1	3.9	4.3	4.0
Vietnam	16.5	24.8	27.2	7.4	17.1	35.4	19.6	9.3	6.0	11.7	6.0	15.0	12.5	15.0
Average	9.1	17.9	9.1	3.8	6.3	13.6	11.9	7.2	4.8	14.8	3.6	6.8	5.0	7.6

Notes:Malaysia's by products figures are based on 2002.
Source:APEC IAP

Thailand made cabinet meeting decisions to reduce tariffs on 1,391 items, such as rubber products, textiles, steel products, general machines, and electricity machines, in September 2003; half-finished goods' tariff rates will be reduced to 10%, raw materials' will be reduced to 5%, and finished goods' will be reduced by 1%. Although Thailand used to set up import duties to 33% on CKD assembly parts for automobiles, they have been pulled down to 30% by this reexamination. However, the import tariff on a completed vehicle is still as high as 80%.

The tariff reduction schedule, in IAP of APEC, states that all applied tariff rates are to be reduced to 10% or less by 2003. However, there is the special treatment that the tariff reductions for agricultural products, automobiles, auto parts, chemical products, plastic products, and metals are dealt with separately from IAP, which will be reduced to a maximum of 10% by 2003, and tariff reduction for beverages containing alcohol, and alcohol, will not be carried out.

In Indonesia, the average applied tariff rate fell from 9.5% in 1998 to 7.2%, and

tariffs have gradually been reduced on main products, such as fiber, textiles, and leather items, electric machinery, and transportation machinery.

In the Indonesia automobile sector, high tariff rates are 20 - 80% for completed vehicles, 15% for CKD, and 5 – 15% for other parts. In addition, the tariff rate for electric machinery is about 10%; that for general machinery is 5%, generally; and, liquor, such as wine, whiskey (170%), and beer (40%); steel products (20 - 25%), etc., are high-tariff items.

Malaysia has imposed a high tariff rate on non-national vehicles according to the national-car policy, which promotes the domestic car industry by import substituion policy, such as the Proton Saga or Perodua, and it has imposed a maximum of 300%, and an average of 107%, as a tariff rate on completed vehicles. Moreover, although the average imposed tariff rate is about 30%, a maximum of 80% also has been imposed on auto parts. The tariff rate for a national car or parts that are used for CKD is capped at 13%. Also, high tariff rates, such as 30% or the like, are imposed on steel pipe for petroleum gas pipelines, as well as 25% and 30%, respectively, for hot-rolling and cold-rolling steel plate, and 30% for some electric machinery.

Malaysia's auto-related products tariff rates

	CKD	CBU (Completely Built Unit)
Car	42~80%	140~300%
4 wheel drive car, MUV	10~40%	60~200%
Wagon	5~40%	42~140%

Although the Philippines preceded other ASEAN countries in reducing tariff rates, a reexamination of some tariff rates was conducted, and as a result, a 5% raise in tariff rates was instituted in October 2003, on textiles (15%), and on leather articles, paper products, footwear, steel, metals, and glass (10%). The Philippines' tariff rates are low overall. Except for motorcycles and the passenger car CKD, at 30%, and textiles at 20%, the highest tariff rate is 15%. The items that have a 15% tariff rate include record players, cassette players, tape recorders, videocassette recorders, radios, televisions, filament electric bulbs and discharge tubes, insulated code cable, etc.

China is to reduce the tariff rate on automobiles to as low as 34.2% on January 1, 2004, and finally to 25% on July 1, 2006, based on the WTO accession agreement,

although the import tariff rate on automobiles as of 1998 was 80 - 100%.

As to electric machinery, China has committed to the Information Technology Agreement (ITA) of the WTO, which was introduced at a Singapore ministerial meeting in 1996. According to the Agreement, China will reduce the tariff rate on IT products to 0%, year by year, after accession to the WTO, although IT products have been at almost a zero tariff rate in ASEAN+3 composition countries since they have participated in ITA, except for China and WTO non-member Vietnam (see Table 5). Not only Vietnam but also Thailand has a high tariff rate for electric products other than IT products; the simple average tariff rates for electric machinery are 11.5% and 15%, respectively.

In addition, although high tariff rates on fiber, clothing, leather, rubber, footwear, and travel items are comparatively maintained in ASEAN+3 composition countries, except for Singapore, this is considered from a viewpoint of domestic mature industrial protection means for Japan, and from a viewpoint of export promotion and foreign currency acquisition means for the developing countries. The fields with low tariff rates are non-electrical (general) machinery, oil products, mineral products, precious stones and chemicals, and photographic supplies, in ascending order. It is said that these items belong to materials, basic components, and capital goods, and they have been covered with free access in order to industrialize respective countries.

Table5 China's Tariff Offer Reduction Schedule upon accession to the WTO

Items	1998	Date of accession	1.1.2002	1.1.2003	1.1.2004	1.1.2005	1.1.2006	1.7.2006	1.1.2010
All items (7,151 items)	17.5	13.6							9.8
Agricultural products (977 items)	22.7	19.3							15.0
Mining and industrial products (6,174)	16.6	12.7							8.9
Main industrial products									
(Home applicances)									
Air conditioners/window & wall installed	25.0	21.0	19.0	17.0	15.0				
/for automobiles	40.0	33.3	30.0	26.7	23.3	20.0			
Refrigerators(5001)	30.0	24.0	21.0	18.0	15.0				
Vacuum cleaners	35.0	26.7	22.5	18.3	14.2	10.0			
Color TVs	35.0	31.7	30.0						
(General machines)									
Fork lifts	18.0	14.4	12.6	10.8	9.0				
Printing machines(plate making machines)	16.0	12.5	10.8	9.0					
(IT)									
Computers	25.0	16.7	12.5	8.3	4.2	0.0			
Automatic data processing machines	9.0	3.0	0.0						
Mobile data processing machines	15.0	7.5	3.8	0.0					
Displays, printers	15.0	7.5	3.8	0.0					
Keyboards, mouses	12.0	6.0	3.0	0.0					
Fax machines	12.0	6.0	3.0	0.0					
Copiers	22.0	17.0	14.8	12.4	10.0				
(Automobiles)									
Buses/30 passenger or more	50.0	41.7	37.5	33.3	29.2	25.0			
/29 passengers or less	70.0	55.0	47.5	40.0	32.5	25.0			
Passengers cars	100-80.0	51.9	43.8	38.2	34.2	30.0	28.0	25.0	
Trucks/less than 5 tons	50.0	40.0	37.5	30.0	29.2	25.0			
Passenger car chassises	60.0	40.0	36.8	31.4	26.1	20.7	15.4	10.0	
Passenger car bodies	70.0	46.0	42.1	35.7	29.3	22.9	16.4	10.0	
(Motorcycles)									
Motorcycles(less than 250cc)	60.0	52.25	48.75	45.0					
Motorcycle parts	25.0	19.6	17.2	14.6	12.0				
(Iron & steel and non-ferrous metals)									
Flat rolled iron & steel products	8.0	6.0							
Iron & steel tubes and pipes	10.0	6.0	4.0						
Refined copper tubes and pipes	6.0	4.0							
Aluminium sheeting	12.0	8.0	6.0						
(Precision instruments)									
Cameras	25.0	21.7	20.0						

Note: The deadline for application of this tariff schedule for almost all items is 1 July 2006. Items with an application deadline beyond July 200
1.1.2008: Terephthalic acid, some dyes, some cosmetics, polyethylene, styrene, vinyl chloride, polyester, polyether, polyamide, polyurethane, pla
scrap, some plastic tubes, some plasticboards and sheeting.
1.1.2010: Some fruits and fermented fruit drinks, and some synthetic fibers.
Source: METI, Japan, "2003 Report on the WTO Consistency of Trade Policies by Major Trading Partners"

IV-2-(3). High Tariff Items

I would like to describe the items that have high tariff rates of 20% or more. Reducing high tariff rates is always a main topic in the field of non-agricultural-products market access of WTO round negotiations. The WTO also recommends that reducing an unusual high tariff rate on a certain item is an effective way to mitigate the general trade distortion effect that accompanies tariff imposition.

Countries that impose high tariff rates of 20% or more on many items are Vietnam, Thailand, Malaysia, and China, in descending order. Countries that impose high tariffs on only a few items, of 20% or more, are Singapore, the Philippines (here, since some agricultural products are excluded from statistics, a numerical value is not identifiable), Indonesia, Japan, and Korea, in ascending order (see Table 6).

Table6 20% over High Tariff Rates Lines of All Lines 2003(%)

	Number of All Tariff Lines	All Goods over 20% tariff rates	Share(%)	Agriculture excluding Fish	Fish and Fish Products	Petroleum Oils	Wood, Pulp, Paper and Furniture	Textiles and Clothing	Leather, Rubber, Footwear and Travel Goods	Metals	Chemical & Photographic Supplies	Transport Equipment	Non-Electric Machinery	Electric Machinery	Mineral Products, Precious Stones &	Manufactured Articles, n.e.s
Japan	9,303	455	4.9	363	3	0	0	0	89	0	0	0	0	0	0	0
China	7,445	792	10.6	302	3	0	1	147	31	12	9	79	20	64	49	75
Korea	11,261	603	5.4	594	5	0	0	0	0	0	4	0	0	0	0	0
Singapore	6,036	0	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0
Thailand	6,204	1,421	22.9	519	3	0	97	324	147	8	9	110	28	44	58	17
Malaysia	10,458	1,565	15.0	22	0	0	73	128	148	346	221	292	97	72	85	81
Indonesia	7,542	112	1.5	29	0	2	0	0	0	4	1	76	0	0	0	0
Philippines	5,556	54	1.0	34	0	0	0	0	0	0	0	20	0	0	0	0
Vietnam	6,521	2,038	31.3	359	88	2	114	624	73	120	109	86	77	142	81	163
Total	70,326	7,040	10.0	2,222	102	4	285	1,223	488	490	353	663	222	322	273	336
Share(%)	100.0	10.0	10.0	3.2	0.1	0.0	0.4	1.7	0.7	0.7	0.5	0.9	0.3	0.5	0.4	0.5

Source:APEC IAP

Although Vietnam is outstanding in having many high tariff items in all fields, the high tariff items are expected to decrease after accession to the WTO in the near future. Thailand and China stand out with their high tariff rate items for agricultural products, fiber, and clothing. Japan claims China has imposed a high tariff on photographic film, at 47%, and imposed a high tariff of 45% on motorcycles. Malaysia has almost no high tariff items among agricultural products. However, instead Malaysia imposes high tariff rates on metals, transportation machinery, chemicals, and photographic parts.

Which country has the lowest ratio of high tariff items? Apart from Singapore, the Philippines has few items with tariffs of 20% or over, except for agricultural products and transportation machinery. Indonesia is also close to the Philippines in the high tariff levy situation. Japan is over-concentrating on agricultural products, leather, rubber, footwear, and travel items, for high tariff rates. Korea is over-concentrating its high tariff rates on agricultural products.

IV-2-(4). Duty-Free Items

Finally, I would like to describe duty-free items. The countries with many duty-free goods for overall items are Singapore and Malaysia (see Table 7).

Apart from Singapore, in Malaysia, 43 - 90% of items are duty-free in each sector, except for fiber and clothing, metals, and transportation machine, and 58% of all items are duty-free, on average. However, fiber and clothing, and transportation machine, have only 20% and 30% in duty-free items, respectively. While Japan has a little less than 40 percent in duty-free items, it has become tax-free at 96 - 100% in the fields of general machinery, transportation machinery, and electric machinery. There are few tax-free items in fiber and clothing, fishery products, processed marine products, and oil

products, with duty-free ratios as low as 2 - 11%.

The share of tax-free items overall is as low as 3.3 - 7.6% for China, Korea, Thailand, and the Philippines. The tax-free rate for Indonesia is 22%, and for Vietnam it is 32%, and they have many tax-free items compared with the four above-mentioned nations.

Table7 Duty-Free Tariff Lines as a percentage of All Lines 2003(%)

	All Goods	Agriculture excluding Fish	Fish and Fish Products	Petroleum Oils	Wood, Pulp, Paper and Furniture	Textiles and Clothing	Leather, Rubber, Footwear and Travel Goods	Metals	Chemical & Photographic Supplies	Transport Equipment	Non-Electric Machinery	Electric Machinery	Mineral Products, Precious Stones &	Manufactured Articles, n.e.s
Japan	36.1	24.5	8.6	10.6	49.0	2.3	32.9	35.1	32.9	99.3	100.0	96.4	76.2	67.2
China	6.6	7.5	9.9	0.0	24.4	0.0	0.5	3.9	0.7	0.3	8.9	25.9	10.1	5.7
Korea	7.6	1.8	0.0	0.0	10.4	0.7	0.3	0.4	6.0	20.1	17.4	29.2	0.9	16.2
Singapore	99.9	99.5	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Thailand	6.5	4.9	8.3	3.8	1.9	0.6	6.9	0.5	12.0	6.5	10.5	13.9	9.6	4.8
Malaysia	58.0	63.0	76.0	90.0	85.0	20.0	43.0	33.0	70.0	21.0	65.0	46.0	58.0	56.0
Indonesia	22.0	14.0	7.1	50.0	42.5	1.4	24.0	13.8	18.1	33.3	71.5	29.6	25.4	15.4
Philippines	3.3	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.2	0.0	0.8	1.5	0.0	0.5
Vietnam	32.0	5.6	0.2	0.7	2.3	2.5	0.6	15.6	31.6	3.9	20.5	5.8	2.7	7.9

Notes:Malaysia's by products figures are based on 2002.
Source:APEC IAP

IV-3. Features of Tariff Rates in the ASEAN+3 Area

In the former paragraph, the condition of the tariff rates within the ASEAN+3 area was analyzed from various angles. The following features found are summarized below.

No.1 China, Korea, Thailand, and Vietnam have generally high tariff rates.

No.2 The tariff rates for agricultural products stand out in Korea and Japan, compared with other items. Malaysia, Thailand, Indonesia, China, and Vietnam have high tariff rates on transportation machinery. Thailand and Vietnam have high tariff rates on electric machinery.

No.3 Vietnam, Thailand, Malaysia, and China have many high tariff (20% or more) items.

No.4 China, Korea, Thailand, and the Philippines have few duty-free items.

From these features, I will describe the problem at the time of forming an FTA by ASEAN+3. Although high tariff rates are still conspicuous in China and Vietnam, China has already committed, in the WTO accession agreement, to reducing the simple average tariff rate to 9.8% in 2010. Additional tariff reduction through new WTO negotiations and steady enforcement of the accession commitment are expected by

China. By carrying out this process, a foundation for tariff abolition in the ASEAN+3 area is expected to be realized.

As to Vietnam, it is desired to carry out all possible tariff reduction on the occasion of accession to the WTO in the near future. Vietnam is expected to take WTO accession as a good opportunity to open its market, as with China.

Subsequently to Singapore and Brunei, Thailand is progressing industrialization and overall development of its economy, such as measured by the GDP per person in the ASEAN member nation, but the country still has high tariff rates. Korea also has high tariff rates despite its more advanced industrialized stage compared with Thailand. It is considered that these countries have grown up, to some extent, economically, and they strongly constituted their respective industrial protections. However, for these countries to occupy an important position in an ASEAN+3 FTA, much effort toward tariff abolition is expected.

As to Thailand and Korea, FTA negotiations with Japan started in December 2003 and February 2004, respectively. Carrying out substantial tariff abolition in FTA negotiations with Japan is expected to be a preliminary step for a future ASEAN+3 FTA.

As to Japan, it may no longer be able to sit still for the argument that the main subject is bringing down its high agricultural products tariff rates. Japan is expected to give entry opportunity to neighboring developing countries, and to introduce market competition to agricultural products and those industries. Although there is a special feature of agricultural industry that is not structurally suitable for market competition, it is expected to be protected not by such as customs duty but by separate domestic measures.

V. Conclusion

The findings of this paper are as follows. First, Japanese companies expect their business to expand if East Asian FTAs are formulated in the future. Generally, Japanese companies have a positive view of FTAs in East Asia. Second, Japanese companies most expect a Japan-China FTA, because Japanese companies have many business relation with China. Third, Japanese companies think that tariff abolition by an FTA

partner country is most important for their business merit. It is also important for Japanese companies to facilitate transparency of custom procedures, in order to reduce their business costs. Finally, despite several and long-term efforts at tariff reduction in APEC, the WTO, etc., the tariff rates of East Asian countries are still relatively high in general, except for a few developed countries. Constant effort at tariff reduction in the area is seriously expected for the formulation of East Asian FTAs in the future.

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