

Have you ever used EPAs?
On the use of preferential certificates of origin
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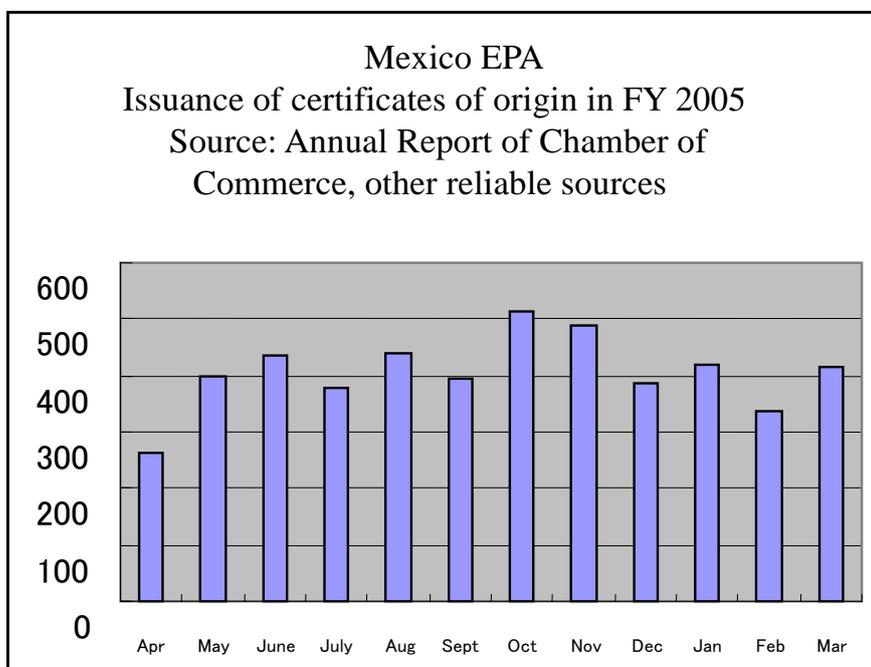
The purpose of this paper is to evaluate existing Japanese EPAs from the user's viewpoint.

The paper shows the actual circumstances concerning the use of preferential certificates of origin under EPAs. As of March 2007, Japan has already concluded several EPAs.

The Japan-Singapore EPA went into force in November 2002; the Japan-Mexico EPA in April 2005; and the Japan-Malaysia EPA in July 2006. Now that four years have passed since the Japan-Singapore EPA, and almost two years since the Japan-Mexico EPA, the time has come for evaluation.

The Japan-Singapore EPA is historically important, as Munakata (2006) pointed out, in that it was clear that unless Japan could conclude an FTA with Singapore, it would not be able to implement any other FTAs.

The particular concern of this paper is to reveal whether the users, Japanese firms, actually make use of these EPAs or not. If not, what are the reasons for Japanese firms not to use preferential certificates of origin under EPAs? Several reasons will be demonstrated in the paper by using data from the questionnaire survey conducted in 2006.



1. Outline of Questionnaire Survey

In November 2006, the Osaka Chamber of Commerce, Kobe Chamber of Commerce, Kyoto Chamber of Commerce, and JETRO (Osaka branch) jointly conducted a survey on the use of existing EPAs. They prepared this research because they suspected that the use of certificates of origin had been in some areas less active than expected. A questionnaire was e-mailed to 4,900 member companies. The total number of respondents was 469, which accounts for 9.6% of the total contacted.

Following are the attributes of the respondents.

Location

	Osaka	Kyoto	Hyogo	Other Kansai Area	Others	Unknown	Total
Numbers	347	24	40	7	31	20	469
ratio(%)	74.0	5.1	8.5	1.5	6.6	4.3	100.0

Type of industry

	Manuf.	Trade & Commerce	Finance	Transportation	Service	Others	Unknown	Total
numbers	205	191	0	13	15	27	18	469
ratio(%)	43.7	40.7	0.0	2.8	3.2	5.8	3.8	100.0

Capital

	Less than ¥50 million	¥50 million-¥100 million	¥100 million-¥500 million	¥500 million-¥1 billion	More than ¥1 billion	Unknown	Total
numbers	172	67	66	11	86	67	469
ratio(%)	36.7	14.3	14.1	2.3	18.3	14.3	100.0

Number of employees

	Less than 20	20-49	50-99	100-499	500-999	1,000 or more	Unknown	Total
numbers	125	58	63	116	37	51	19	469
ratio(%)	26.7	12.4	13.4	24.7	7.9	10.9	4.1	100.0

Major dealing commodities (multiple answers)

	Metal	Machinery	Electronics	Transportation machinery	Textile	Chemical products	Food	Convenience goods	Others	Total
numbers	64	135	85	58	75	106	43	56	125	469
ratio(%)	13.6	28.8	18.1	12.4	16.0	22.6	9.2	11.9	26.7	100. 0

On overseas transactions

	Performing overseas transactions	Domestic transactions only	Unknown	Total
numbers	435	33	1	469
ratio(%)	92.8	7.6	0.2	100.0

As the above figures show, Osaka-based companies account for almost three-quarters of the respondents. The manufacturing and trade and commerce industries are the major respondents. As for the scale of the company, large companies (over ¥1 billion capital) represent 18.3%. In terms of number of employees, large companies (1,000 or more employees) represent 10.9%. More than 90% of companies are performing overseas transactions.

2. Do you make use of EPAs

2-1 Japan-Singapore EPA

This questionnaire survey was designed to show the behavior of Japanese firms on the use of EPAs. Therefore some of the questions in the survey are very straightforward. The main purpose is asking Japanese firms: “Are you using EPAs?”

The answer was shocking, in a sense, regarding Singapore. In the case of the Japan-Singapore EPA, which started November 2002, only 17 companies out of 469 are using the EPA. This means a mere 3.8% of the total. The plausible reasons for such low figures are discussed in the next section.

Actually, more than half of the respondents answered that they have heard of the EPA but have no experience using it. About a quarter answered that they have never heard of the EPA and have no interest in using it. About 12% answered that they have never heard of the EPA but have some interest in using it.

Japan-Singapore EPA

Classification	Number	Ratio (%)
Using <Both export and import>	8	1.7
Using <Export>	5	1.1
Using <Import>	3	0.6
Using <Others>	1	0.2
Have heard of EPA but have not used it	246	52.5
Never heard of EPA but have interest	57	12.2
Never heard of EPA and have no interest	119	25.4
Unknown	30	6.4
Total	469	100.0

2-2 Japan-Mexico EPA

The answer for the Japan-Mexico EPA since April 2005 was a bit of a relief for policy-makers. In the case of the Japan-Mexico EPA, some 59 companies out of 469 are using the EPA, which means 12.5%. Notably 45 companies out of 59 use the EPA for export to Mexico and only one company uses the EPA for import from Mexico.

Actually, about 44% of respondents answered that they have heard of the EPA but have no experience using it. About 32% of them, compared with 25% for Singapore, answered that they have never heard of the EPA and have no interest in using it. About 5%, compared with 12% for Singapore, answered that they have never heard of the EPA but have some interest in using it.

Japan-Mexico EPA

Classification	Number	Ratio (%)
Using <Both export and import>	8	1.7
Using <Export>	45	9.6
Using <Import>	1	0.2
Using <Others>	5	1.1
Have heard of EPA but has not used it.	205	43.7
Never heard of it but have interest	21	4.5
Never heard of it and have no interest	150	32.0
Unknown/no answer	34	7.2
Total	469	100.0

2-3 Japan-Malaysia EPA

It might be premature to ask about the Japan-Malaysia EPA in November 2006 because it has only gone into force as of July 2006. Taking this short period into account, the result was not disappointing.

In the case of the Japan-Malaysia EPA, some 26 companies out of 469 are using the EPA, which means 5.5%, a little bit higher than the Japan-Singapore EPA.

Actually, almost half of the respondents answered that they have heard of the EPA but have no experience using it. About a quarter, the same as the 25% response for the Singapore EPA, answered that they have never heard of the EPA and have no interest in using it. About 12%, almost the same level as with the Singapore EPA, answered that they have never heard of the EPA but have some interest in using it. The overall distribution of answers is similar to that of the Singapore EPA.

Japan-Malaysia EPA

Classification	Number	Ratio (%)
Using <Both export and import>	8	1.7
Using <Export>	10	2.1
Using <Import>	7	1.5
Using <Others>	1	0.2
Have heard of EPA but has not used it.	237	50.5
Never heard of it but have interest	56	11.9
Never heard of it and have no interest	121	25.8
Unknown/no answer	29	6.2
Total	469	100.0

3. Are you reluctant to use EPAs and why?

In this section, the reasons for not using EPAs will be discussed. There are many companies which have heard of EPAs but have never used them. These companies were asked why they do not use them even though they know about them.

3.1 Reasons for not using Japan-Singapore EPA

The reason is obvious; firms do not have the incentive to use it. A large number of respondents (50.8%) answered that their transactions with Singapore are so small that they do not feel like dealing with the cost and time of using EPAs. This answer gets at the heart of the problem.

On the other hand, almost a quarter of companies answered that they do not use EPAs because they do not know the EPAs themselves in detail and do not know how to use them. Contrary to the expectations of researchers, few companies answered that complicated procedures are an obstacle.

Reasons for not using Japan-Singapore EPA

Classification	Number	Ratio (%)
Lack of knowledge and/or do not know how to use it	56	22.8
Complicated procedures in acquiring certificate of origin	2	0.8
The reduction of tariff by EPA is too small and have no incentive to use EPA	9	3.7
Already have preferential treatment with trading partners without EPA	2	0.8
Transactions with trading partner are too small and have no incentive to use EPA	125	50.8
Other	43	17.5
Unknown/No answer	9	3.7
Total	246	100.0

3.2 Reasons for not using Japan-Mexico EPA

The reason is also obvious with Mexico; firms do not have incentive to use it. A large number of respondents (54.6%) answered that their transactions with Mexico are so small that they do not feel like dealing with the cost and time of EPAs.

On the other hand, 16% of the companies answered that they do not use EPAs because they do not know the EPAs themselves in detail and do not know how to use them. Contrary to the expectations of researchers, few companies answered that complicated procedures are an obstacle.

Reasons for not using Japan-Mexico EPA

Classification	Number	Ratio (%)
Lack of knowledge and/or do not know how to use it	33	16.0
Complicated procedures in acquiring certificate of origin	3	1.5
The reduction of tariff by EPA is too small and have no incentive to use EPA	2	1.0
Already have preferential treatment with trading partners without EPA	0	0.0
Transactions with Mexico are too small and have no incentive to use EPA	112	54.6
Other	37	18.0
Unknown/No answer	18	8.8
Total	205	100.0

3.3 Reasons for not using Japan-Malaysia EPA

The reason is also obvious here with Malaysia; firms do not have incentive to use it. Large number of respondents (46.8%), a bit lower than Mexico, answered that their transactions with Malaysia are so small that they do not feel like dealing with the cost and

time of EPAs.

On the other hand, 24% of the companies answered that they do not use EPAs because they do not know the EPAs themselves in detail and do not know how to use them. Contrary to the expectations of researchers, few companies answered that complicated procedures are an obstacle.

Reasons for not using Japan-Malaysia EPA

Classification	Number	Ratio (%)
Lack of knowledge and/or do not know how to use it	57	24.1
Complicated procedures in acquiring certificate of origin	7	3.0
The reduction of tariff by EPA is too small and have no incentive to use EPA	5	2.1
Already have preferential treatment with trading partners without EPA	0	0.0
Transactions with Malaysia are too small and have no incentive to use EPA	111	46.8
Other	37	15.6
Unknown/No answer	20	8.4
Total	237	100.0

4. Mismatch

In the above section, we find that existing EPAs are not attractive for the users. The reason is quite simple; these three countries - Singapore, Mexico, and Malaysia - are not necessarily major trading partners for Japanese firms. As we might easily imagine, China is the largest trading partner.

The figures below show, for example, 129 companies rank China as the most important trading partner, while 81 firms regard the United States as most significant, and 40 firms place Korea at the top. Overall, China, the United States, Korea, Taiwan, Hong Kong, Indonesia, and Thailand are viewed as the major partners. Singapore, Mexico, and Malaysia have not been popular trading partners among Japanese firms.

However, a question is: Why do Japanese firms not use the Japan-Singapore EPA despite some firms answering that Singapore is one of the important trading partners? This might be interpreted that Japan and Singapore had already liberalized trade substantially, especially in manufactured goods, before the conclusion of the EPA. Therefore, the need for using the EPA is not so great.

Trading partners of respondents (multiple answers)

First	China	129	United States	81	Korea	40	Taiwan	27	Hong Kong	24	Indonesia	13
Second	China	71	United States	44	Korea	43	Taiwan	34	Thailand	29	Hong Kong	27
Third	Taiwan	46	Korea	43	United States	33	Thailand	29	China	28	<i>Singapore</i>	27
Fourth	Korea	30	Taiwan	29	China	24	Thailand	22	<i>Singapore</i>	22	United States	14
Fifth	Taiwan	32	United States	17	<i>Singapore</i>	17	Thailand	15	China	15	Indonesia	14

The next figures show the distribution of overseas bases and the types of business of the respondents. Overseas bases, as a whole, are concentrated in China, the United States, and Thailand. In terms of production, China, Thailand, the US, and Indonesia are the important bases for Japanese firms. Singapore is utilized as a base for sales and local headquarters.

Overseas bases and functions of Japanese firms

	Numbers of bases	Style of the business activity (multiple answers)				
		Production	Sales	Local headquarters	Procurement	Others
China	166	102	92	9	21	24
United States	95	34	75	16	7	15
Thailand	68	41	48	6	10	9
Singapore	37	9	34	7	4	3
Hong Kong	36	0	31	3	2	7
Taiwan	32	16	22	1	3	6
Korea	31	8	26	1	5	6
Indonesia	27	21	15	1	1	3
Malaysia	26	14	19	2	2	4
Vietnam	14	10	5	0	1	4
Philippines	5	3	3	0	0	1

5. Are EPAs beneficial for business?

Do EPAs have positive effects on businesses? The results of the Japan-Mexico EPA are shown in the table below. Note that Singapore was ruled out from the analysis because the number of respondents was so small and has some extraordinary figures.

Some companies report that their sales have increased but half answered that there is not yet a clear sign of change. Only two companies answered that their profits have

decreased. It seems the EPA has positive effects on businesses, but it is still premature to evaluate this decisively.

“Is the EPA easy to use for firms?” is the next question. Some critics say that the procedure of filling application forms takes a long time and is costly, and this is the reason for not using EPAs. However, nearly 60% of respondents evaluate it positively while one-third of them have some points of contention. This result is quite different from what we had expected.

Effect of EPA with Mexico on business

Classification	Number	Ratio (%)
Increase of sales	7	11.9
Increase of sales but no change of profit	5	8.5
No change of sales	16	27.1
Increase of cost and decrease of profit	2	3.4
No clear effect so far	28	47.5
No answer	1	1.7
Total	59	100.0

Is the EPA with Mexico conveniently designed?

	Comfortable	No major problem	Small problem	Should be repaired	No answer	Total
number	5	30	15	6	3	59
ratio (%)	8.5	50.8	25.4	10.2	5.1	100.0

Do EPAs have positive effects on businesses regarding Malaysia? The results of Japan-Malaysia EPA are shown in the table below. Some companies report that their sales have increased but half answered that there is not yet a clear sign of change. No companies answered that their profits have decreased. It seems the EPA has positive effects on businesses, but it is still premature to evaluate this decisively.

“Is the EPA easy to use for firms?” is the next question. Some critics say that the procedure of filling application forms takes a long time and is costly, and this is the reason for not using EPAs. Actually, however, 50% of respondents answered that there are some problems; a bit higher than the Japan-Mexico EPA.

Effect on business of EPA with Malaysia

Classification	Number	Ratio (%)
Increase of sales	3	11.5
Increase of sales but no change of profit	2	7.7
No change of sales	8	30.8
Increase of cost and decrease of profit	0	0.0
No clear effect so far	13	50.0
No answer	0	0.0
Total	26	100.0

Is the EPA with Malaysia conveniently designed?

	Comfortable	No major problem	Small problem	Should be improved	No answer	Total
numbers	1	9	13	1	2	26
ratio (%)	3.8	34.6	50.0	3.8	7.7	100.0

6. Desirable EPA partnerships for Japan

Respondents were asked how much they are interested in concluding EPAs with the countries below. Note that these are countries with which Japan is recently negotiating the conclusion of EPAs. Therefore countries like China and the United States are listed separately, where there is little possibility for conclusion of an EPA with Japan in the near future.

It is obvious that Japanese firms have desire to conclude EPAs with Vietnam, ASEAN as a whole, Korea, India, and Indonesia. On the other hand, Japanese firms do not pay attention to Brunei, Chile, and Switzerland.

Desirable EPA partnerships within countries currently being negotiated

Countries	How much are you interested in?				Fields of interest (multiple answer)				
	Greatly	Fairly	Not so much	No interest	Export	Import	Investment	Human capital	Others
Korea	89	175	81	48	226	141	12	13	12
Indonesia	62	145	86	87	187	81	17	11	16
Brunei	9	38	106	207	80	21	10	3	14
Vietnam	98	165	73	58	186	116	54	32	19
ASEAN	94	183	77	30	217	132	36	27	20
India	86	172	68	53	195	107	33	22	18
Asian Community	69	205	74	52	197	126	39	23	16
Chile	22	54	102	188	94	23	5	2	11
GCC	48	103	82	134	153	32	9	5	14
Australia	47	134	88	89	168	51	14	8	15
Switzerland	23	77	112	153	104	45	8	7	16

As the table below shows, what firms really need is partnerships with China and the United States.

Desirable EPA partnerships within countries not currently being negotiated

Countries	Numbers	Fields of interest (multiple answer)				
		Export	Import	Investment	Human capital	Others
China	55	41	39	15	8	6
United States	27	24	7	3	1	1
Taiwan	14	14	9	1	2	1
Brazil	14	13	4	4	0	0
Russia	9	9	2	0	0	1
Germany	9	6	3	1	1	0
EU	8	7	2	1	0	0

7. Conclusion

The use of EPAs has been less active than expected. The reason is that the existing EPAs are not directly related to the needs of Japanese firms. Although Singapore, Mexico, and Malaysia are important trade partners for Japan, a substantial number of firms feels that there is no need to use EPAs because their trade volumes are not that large. Japanese firms show strong interest in EPAs with China, the United States, and Korea.

Reference

Munakata, N. (2006) *Transforming East Asia*, Brookings Institution Press

Appendix

1) Proportion of overseas transaction in sales

	90% and above	75%-89%	50%-74%	25%-49%	10%-24%	Below 10%	Unknown	Total
numbers	71	36	57	72	79	117	3	469
ratio(%)	15.1	7.7	12.2	15.4	16.8	24.9	0.6	100.0

2) Trading partners of respondents (multiple answers)

First	China	129	United States	81	Korea	40	Taiwan	27	Hong Kong	24	Indonesia	13
Second	China	71	United States	44	Korea	43	Taiwan	34	Thailand	29	Hong Kong	27
Third	Taiwan	46	Korea	43	United States	33	Thailand	29	China	28	<i>Singapore</i>	27
Fourth	Korea	30	Taiwan	29	China	24	Thailand	22	<i>Singapore</i>	22	United States	14
Fifth	Taiwan	32	United States	17	<i>Singapore</i>	17	Thailand	15	China	15	Indonesia	14

3) On overseas business activities

	Number	Ratio (%)
Already have overseas branch, factory, office, etc.	246	52.5
To be embarked upon in the future	67	14.3
No concrete plan	103	22.0
Decided not go overseas	48	10.2
Unknown	5	1.1
Total	469	100.0