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

Naoko Shinkai
Zenebe Bashaw
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<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>ARTNeT</td>
<td>Asia-Pacific Research and Training Network on Trade</td>
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<td>BPA</td>
<td>Business Process Analysis</td>
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<td>EPA</td>
<td>Economic Partnership Agreement</td>
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<td>GSP</td>
<td>Generalized System of Preferences</td>
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<td>Least Developed Country</td>
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<td>Logistics Performance Index</td>
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<td>METI</td>
<td>Ministry of Economy, Trade and Industry</td>
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<td>Ministry of Health, Labour and Welfare</td>
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<td>MFN</td>
<td>Most Favoured Nation</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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Introduction

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

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

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Source: Ministry of Finance, Japan, April 2010

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

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

¹ GSP was initiated in Japan in 1971 and currently 140 countries are recognized as beneficiaries of GSP. Among those, 49 countries are categorized as LDCs.
that transportation costs vary by partner and that these costs are significant with regard to other trade costs. Other costs include the costs of documentation, costs related to various types of risks and costs emerging from regulations, handling fees etc., in addition to taxes.

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

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

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

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

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

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\(^2\) Wilson, Mann and Otsuki 2004.
Box 1: Overview of the import and export processes of Japan

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

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

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

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

For these trade processes, electronic data interchange is applied in order to facilitate transactions based on the standardized system. Importers and exporters can apply for a standard code online, which can be applied for facilitating procedures at customs. At the same time, this code is utilized for other surveillance systems and it is shared with stakeholders of trade procedures such as warehouse and logistic companies, banks, air carriers and shipping companies. Although the initial application stage seems to require 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 is in force for the next three years, with no additional inquiries required.

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

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Study method

The main focus of this study was to examine the procedures involved in the import and export processes in Japan. Specifically, the study looks into the administrative requirements, 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. The study focused on four trade processes: the process of exporting auto parts to China, the process of exporting used cars to Sri Lanka, the process of importing textiles and apparel from China and the process of importing tea from Sri Lanka.

The study relies on primary data collected through interviews of companies, individuals, government officials and experts directly involved in the import and export processes. The study also involved an analysis of relevant literature and statistical data.

The interviewed companies were selected in such a way so that they conform to the indicators used in the World Bank’s Doing Business studies, to some extent. Thus, the selected companies are fully domestically owned, have an export/import ratio of more than 10 per cent of sales and are not located in an export processing zone. For one of the products of this study, tea, a Small and Medium-sized Enterprise (SME) was included in order to identify any existing barriers to SMEs in trade. The selected companies are mostly located in cities near ports with the largest trade volumes or the largest trade values in Japan, such as Yokohama and Nagoya. In the case of auto parts, most of the selected companies are located near Toyota-city, around Nagoya, due to its supply chain provision for the large automobile companies operating in the region.

Regarding the time required for the trade process, the study examined the time taken from the initiation of business trading until the completion of loading products at the port. The time spent for the business negotiations, from the initiation of a deal to the closing of one can vary depending on the types of products and the production systems used by the respective firms. The business negotiation stage is not considered as a part of the time of the trade process in the World Bank Doing Business studies, but this time has been measured and included in this study in order to assess the possible product-dependent diversification as much as possible.

This study also counted the number of days required for international transportation. This was done in order to gain a complete picture of the trade process, including both domestic and international variations in the procedures. All the documents required for the trade processes, as described in Box 1, were also taken into account.
The export processes examined in this study are the export of auto parts to China and the export of used cars to Sri Lanka. The import processes that are examined are the import of textiles and apparel from China and tea from Sri Lanka.

The product “auto parts” includes an extensive range of items that are used directly 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 a time-consuming endeavour that is beyond the scope of this study, the study examined only aggregate data of auto parts, by region and country. In addition, data was compiled only from “member exporters”. Thus, the data does not fully represent all major manufacturers and exporters of auto parts in Japan.4

The same applies to data about used cars. The Japan Customs and Tariff Bureau (JCTB) provides data on exports of used cars across destination countries, but careful analysis of the data is necessary, as 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 for the years between 2002 and 2008, showing the number of used cars, including a variety of types of cars, ranging from light vans to utility cars, buses and trucks. Not all used cars for export are Japanese-made, however, since the category also includes cars manufactured elsewhere and imported into Japan, such as Volkswagen, BMW, Ford, and Mercedes Benz, although these cars are not large in volume. In Japan, associations of exporters of used cars maintain data collected from members, and this data was examined rather than data for all exporters of used cars.

In recent decades, imports of textiles into Japan have been dominated by Asian countries and particularly by China. Data compiled since early 1990s by the Japan Textiles Importers Association (JTIA) represents the data of 80 member importers, as of May 2010.5 Textiles are made of natural fibres and regenerated/synthetic fibres, including silk fibres (for example, anaphe, silk, and byssus), fur (including wool, cashmere, angora etc), seed fibre (cotton, kapok and akund), and bast fibre (flax, linen, hemp, ramie etc).

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). Data for tea imports was obtained from the JCTB. Supplementary data was provided by the Japan Tea Association (JTA). The data cover two decades of tea imports from 1990 to 2010. The Japan External Trade Organization (JETRO) maintains extensive disaggregated databases on tea imports. Tea can be non-fermented or partially fermented, and data form JETRO follows this classification for packed black and green tea for packages of three kilogramms and below.

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4 The Japan Auto Parts Industries Association, established in 1969, compiles and disseminates data on auto parts production and export from its regular and associate member companies. As of 2010, it had 444 members. http://www.japia.or.jp/index.html
Summary of findings

Export of auto parts

This study examined the export procedures undertaken by one large-scale exporter of spare parts. Established in mid-1930s, this company expanded its business through the acquisition of a number of small-scale machine and spare part makers in Japan. The company has almost 70 per cent of the value-added sector in automobile manufacturing.6 According to interviews conducted with representatives of the company, large volumes of exports of spare parts to Asian countries, mainly to China, began in the 1990s. The main factors behind this trend included the appreciation of the Japanese yen, a sluggish domestic market, fierce competition in the automobile market resulting in the need for aggressive production-cost reductions for “lean production”, and the search for low cost labour. These trends also brought about a shift in the location of production to overseas plants, particularly in other Asian countries and in countries with transitional economies. Outsourcing of cost-effective low-added auto parts also followed. The interviews with company representatives indicated that trade facilitation was important in expediting smooth and cost-effective procedures.

China has been an important market for Japanese automobiles and auto parts since the gradual opening of the Chinese domestic market to Japanese manufacturers. Exports of auto parts have shown continuous positive growth, inducing major Japanese automobile and auto parts manufacturers to expand their businesses. For example, Japanese auto parts exports to China were 7.5 per cent of all auto parts exports in 2000 and increased to 8.2 per cent in 2001. In the same period, only the United States (US) and Germany were ahead of Japan with respect to the share of auto parts exports to China.7 In 2003, total exports of Japanese auto parts grew by 9 per cent.8 In 2002, 23 new auto parts makers were 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 America led to the concentration of Japanese exports of auto parts to China. This also came about as a result of strong economic growth in China. For example, exports of auto parts rose by 67.7 per cent in 2010, driven by high demand, mainly in China.9 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 manufacturers, with the exception of manufacturers of sophisticated and high quality auto parts only available in Japan, outsource auto parts manufacturing to local manufacturers in China.10

With regard to the trade procedures, customers have to submit the required 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. The production of

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6 Kobayashi. 2003
7 Authors’ calculation from Annual Japanese Trade Statistics.
8 Mori. 2004
9 Thailand and the Czech Republic also attracted 15 and 7 auto parts makers in 2002, respectively. Japan Auto Parts Industries Association (2002). Kagai jigyou gaiyou chousa hokoukusho, p. 3
10 Inagaki. 2002
auto parts is often outsourced but this procedure applies nevertheless. Procedures in
exports have been computerized, with automated information processing with which data
on specification, model, price, trends in orders and others of items are maintained. This
improvement has not yet been able to tackle delays of actual delivery, however, which
also arise from the unwillingness of manufacturers to submit supplementary documents
(for example, catalogues and designs) to customers for 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 and efficient trade.

The study found that domestic trade facilitation efforts in Japan regarding exports
of spare parts reduced government-related transaction costs arising from customs duties,
port charges and port storage expenses. It was pointed out, however, that pre-export
document submission and actual customs inspection are still not transparent. This is
believed to be one reason for delays in delivering items. 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 among exporters of spare parts.\footnote{11}

\textbf{Export of used cars}

One of the most important factors in the expansion of used car exports from Japan is the
cost of owning and maintaining a car in Japan. First, three years after the purchase of the
car, car owners must begin paying a car safety inspection fee (\textit{shaken}) every two years.
Depending on the car type and origin (Japanese-made or imported car), the fee can be as
high as 1,500 United States Dollars (USD). Second, the longer a car owner owns a car, the
higher the inspection fee is. Third, the value of old cars depreciates fast and disposing of
cars is also costly. Fourth, new car models with attractive deals and higher fuel-efficiency
increase the turnover of cars. For example, 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 has increased
the supply of used cars. Consequently, there are many used cars available for export in
Japan.

In many countries, demand for Japanese used cars is high. Since cars in Japan are
subject to regular inspection and maintenance, most used cars from Japan tend to be in a
good condition. This helps to maintain high demand overseas for used cars from Japan.
Sri Lanka is one of the major importers of used cars from Japan. Between 2002 and 2006
Sri Lanka was among the top ten importers of Japanese used cars. The share of car
imports dropped dramatically after 2006, however. One reason for this was the prohibitive
duty tax imposed by the Sri Lankan Government on used cars (excluding heavy trucks),
which can be as high as 200 per cent.\footnote{12} Table 2 shows the top 15 importers of Japanese
used cars between 2002 and 2008.

\begin{table}
\end{table}

\footnote{11} Telegraph (2010). \textquoteleft Japan's exports surge for fifth month\textquoteright, 27 May.
http://www.telegraph.co.uk/finance/financetopics/financialcrisis/7770054/Japans-exports-surge-for-fifth-month.html
\footnote{12} Government of Sri Lanka, http://www.customs.gov.lk/mv.htm. This was also stated by used car exporters (Interview
in Nagoya, June 2010).
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<td>Sri Lanka</td>
<td>18,918</td>
<td>Sri Lanka</td>
<td>17,550</td>
<td>United Kingdom</td>
<td>24,369</td>
<td>United Kingdom</td>
<td>24,270</td>
<td>Singapore</td>
<td>26,078</td>
</tr>
<tr>
<td>11</td>
<td>Australia</td>
<td>13,748</td>
<td>Chile</td>
<td>13,748</td>
<td>Kenya</td>
<td>16,949</td>
<td>Malaysia</td>
<td>17,544</td>
<td>Kenya</td>
<td>24,187</td>
<td>Pakistan</td>
<td>21,576</td>
<td>Uganda</td>
<td>22,682</td>
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<tr>
<td>12</td>
<td>Bangladesh</td>
<td>13,070</td>
<td>Kenya</td>
<td>13,070</td>
<td>Jamaica</td>
<td>15,922</td>
<td>Kazakhstan</td>
<td>16,970</td>
<td>Philippines</td>
<td>22,920</td>
<td>Bangladesh</td>
<td>18,496</td>
<td>Malaysia</td>
<td>21,622</td>
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<tr>
<td>13</td>
<td>Trinidad and Tobago</td>
<td>11,521</td>
<td>Trinidad and Tobago</td>
<td>11,521</td>
<td>Thailand</td>
<td>14,769</td>
<td>Australia</td>
<td>14,177</td>
<td>Singapore</td>
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<td>Malaysia</td>
<td>18,423</td>
<td>Philippines</td>
<td>19,939</td>
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<tr>
<td>14</td>
<td>Kenya</td>
<td>11,351</td>
<td>Malaysia</td>
<td>11,351</td>
<td>Malaysia</td>
<td>11,521</td>
<td>Cyprus</td>
<td>12,708</td>
<td>Bangladesh</td>
<td>14,288</td>
<td>Mongolia</td>
<td>17,802</td>
<td>Tanzania</td>
<td>16,359</td>
</tr>
<tr>
<td>15</td>
<td>Malaysia</td>
<td>10,717</td>
<td>Thailand</td>
<td>10,717</td>
<td>Australia</td>
<td>10,817</td>
<td>Pakistan</td>
<td>11,780</td>
<td>Mongolia</td>
<td>13,486</td>
<td>Uganda</td>
<td>16,761</td>
<td>Surinam</td>
<td>16,020</td>
</tr>
</tbody>
</table>

Source: Japan Customs and Tariff Bureau (JCTB)
Interviews were conducted with two exporters of used cars, which export cars from Nagoya to Sri Lanka. Obtaining reliable and complete information from these exporters was difficult, however, due to their suspicions regarding the motives of the research. Building trust and gaining the willingness of interviewees took a long time and required intensive negotiations. The exporters were suspicious because the 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 pieces of land that are known as “yards”. These yards have been frequent targets of police investigations on the grounds that they could harbour or hire illegal foreign residents who have overstayed their visas. Furthermore, reports of stolen high-demand used cars (for example, Toyota Hiace, a minibus) led to stringent inspections of pre-arrival documents and actual shipments from Japan. In order to address these difficulties, a number of businesses operated by foreigners resorted to paying large sums to cooperate with Japanese nationals involved in similar businesses.

Operators face difficulties in obtaining 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 is costly both in terms of time and resources (fuel, labour) and is inefficient and laborious, particularly when exporting a large number of cars. Transaction costs include costs associated with collecting, producing, transmitting, posting, faxing and processing information required to prepare and submit documents and fees paid for setting up and financing customs bonds and guarantees. The risks involved in running used car businesses, and the sometimes complicated and unpredictable regulations, force dealers to ask customers for advance payment before shipment of goods. This is required because of cases in the past in which buyers failed to transfer money after the shipment of the goods, claiming that customs regulations in the destination country were higher than expected or that the specifications given during the quotation process did not match the actual goods received.

Recommendations for improving the trade process include ensuring consistent enforcement of laws, improved mechanisms for corrections and appeals in cases in which traders believe that they are receiving unfair treatment, better risk management, avoidance of duplication in pre-arrival documentation and inspections, and trade consultations with regard to freight and air transportation.

**Import of textiles and apparel**

The textiles industry in most developed countries has experienced a prolonged “structural depression” since the 1970s. In response, the United States, Germany and Great Britain attempted to increase mass production to resuscitate the industry, while Japan and Italy shifted to specializing in fashion and household industrial textiles.18

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 labour. Second, it has been searching for ways to overcome fierce competition, accompanied by inefficient government subsidies to the textile industry.19

Over the past decade Japanese textile producers have been investing in Chinese

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18 McNamara. 1995.
markets for producing textiles and secondary products. Cheap labour, geographical proximity, domestic production of raw material in China, and enhanced local skills have elevated the status of China as the largest clothing exporter and the second largest textiles exporter of the world. In 2002, China replaced the United States as Japan’s top trade partner in terms of imports. China has been the top exporter of textiles to Japan since mid-1990s. Data from the Japan Textiles Importers Association shows that between 1999 and 2003 China accounted for 35.1 per cent of the total imports of textiles into Japan, which was more than twice the total imports from the top ten textile exporting countries to Japan during the same period. Japan is now the fourth largest importer of textiles after the European Union (EU), the United States and Hong Kong.

Three companies that import textiles from China were interviewed. These importers, Company D, Company I and Company M are located in Tokyo and Yokohama. Company D is highly involved in producing garments and has established factories in China, while Company I is in the process of setting up a factory in China in addition to importing clothes from China. Company M only imports clothes from China. There is intense competition between the companies, particularly between Companies I and M, and a decline in profits of the textile industry has added urgency to the search for more efficient business procedures. It also calls for cutting costs, particularly those arising from buying items in China and transporting them to Japan. The interviewed companies stated that transportation costs remain the largest cost of their trade. The costs arising from procedures in trade are far lower than the direct costs incurred for transport operators, freight forwarders, customs brokers, banks and finance companies, insurance companies and port operators.

There was a consensus among the interviewed companies that domestic trade facilitation efforts in Japan had led to improvements, though representatives of Company I stated that they were sometimes required to submit detailed documentation regarding the specifications and models of clothes that they import from China. Incompatibility of procedures and regulations between the trading partners (Japan and China) was more evident in the textile business than in other businesses examined in this study. According to the respondents interviewed for the study, this incompatibility caused a conflict of interest between importers and local businesses. For companies producing textiles in China and importing to Japan, the issue of unpredictable regulations was cited as one institutional barrier in trade facilitation. In addition, the non-existence of labour laws in China and the recent rise in strikes by workers caused disruptions in the supply chain, leading to delays in shipments of orders.

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 procedures, and clarification and predictability of regulatory procedures in the operating country (China).

**Import of tea**

Tea consumption has been a major part of Japanese culture for many years and the tea industry served as the basis for the growth of semi-manufactured goods.\(^{20}\) In terms of trade, tea in Japan is a high-value commodity along with raw silk, pottery and sardines.\(^{21}\) Japan has

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\(^{20}\) Ohkawa and Rosovsky 1960

\(^{21}\) Yasuba 1996
strict rules and regulations relating to importing agricultural products such as tea. Importing tea requires plant quarantine inspection certificates for the purpose of attesting the absence of “noxious insects”. There is also a need for mandatory phytosanitary checking, with samples submitted to the Ministry of Health, Labour and Welfare of Japan (MHLW). The data from the MHLW indicate that no violations were found for imports of tea from Sri Lanka.

Two companies importing tea from Sri Lanka, Company R from Tokyo and Company L from Nagoya, were interviewed. Company L is an SME and its imports of tea from Sri Lanka constitute a major part of its total imports. Both companies spend a relatively long period selecting and buying tea products due to the characteristics of the product. Tea is a seasonal product and each type of tea is only available during a certain period. For example, Uva tea is available between June and September but the best Dimbula tea is harvested in January and February. Prior to purchasing, the importers collect several samples, which does not take much time. The procedure of selecting tea is lengthy, however, as it involves comparing the quality of the tea from different seasons; it can take between one and one and a half months. Tea is generally obtained through auctions. According to the interview respondents, packaging has improved a lot and international financial transactions are not an issue for importing tea. Although the buying procedure is quite similar for all of the companies, some differences occur depending on the size of the company and the location of the port.

International transportation involves administrative procedures such as obtaining permits, clearing customs, sanitation inspections, etc. The time and cost spent on these administrative procedures varies by port. At Nagoya Port, the time of the procedures varies depending on the distance from the warehouse to the administrative unit, which is long for some piers. On the other hand, air cargo is handled at one point and documentation and inspection are completed in one step at both Narita Airport (Tokyo) and Central Japan International Airport (Nagoya). The interviewed companies identified container-sharing (required for small quantities of cargo) as a bottleneck in the import process as international transportation by ship takes between 4 and 14 days longer when loading is conducted not by container but by container-sharing. Container-sharing also adds more days to the process of unloading. On the other hand, a small cargo seems to have a slight advantage when transporting by air, in terms of handling time.

As with the inspections of other products, the inspection process of tea is not known beforehand. This does not appear to be a major obstacle to trade in tea, however. For companies that outsource to customs brokers the administrative procedures involved in the process of importing tea, the difficulty lies in the quality control aspect of the tea import process, which is a feature of the product itself. The SME, which undertakes the administrative tasks required for importing tea by itself, recommends implementing a one stop service so as to reduce the time and labour required for this process. Other recommendations from tea importers include implementing a Single Window for import procedures, facilitation of knowledge expansion about procedures and stronger support for an electronic registration system.

**Comparison of time to trade across products**

When comparing the time taken to trade the four selected products (auto parts, used cars, apparel and tea), what is noticeable is that the time required for “port terminal handling” and “customs and inspections” varies considerably depending on the size of the firms involved,
with small companies requiring more time for these procedures. For example, the small company, Company L2, requires five days to complete the “port terminal handling” procedures, while the big company, Company L1, requires only three days. Small companies face difficulties at the port since they do not have their own storage spaces and because their traded goods are loaded as compound goods. Furthermore, small companies spend more time on customs and inspections procedures than do large companies, because large companies employ custom brokers to undertake these procedures and as customs brokers are professionals in this area, the procedures can be undertaken very quickly by them. The times spent for each of the trade procedures is summarized in Table 3.

Table 3. Estimated length of time needed for each procedure, from buying an item to delivery

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

* Average: until the order is in place
* For privacy reasons and as a precondition to granting interviews, the actual names of the companies interviewed are not disclosed. Those companies without indication of a location are based in Nagoya.

Recent initiatives, such as online applications for registration of importers and exporters could reduce the disadvantages faced by small firms, but SMEs would require comprehensive support at the time implementation of the changes in the system and this issue has to be managed effectively to remove barriers to small importers and exporters.

According to the World Bank Doing Business studies, it takes 10 days to export products from Japan and 11 days to import products into Japan. The study described here found, however, that the time taken for the export and import processes was much longer, ranging from 18 to 46 days, as shown in Table 3. This is partly because this study included the days required to negotiate the business deal as a part of the “Buy” process. These negotiations include, inter alia, ordering samples from overseas, inspection of the quality of products, selection 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 depending on the business strategy of the companies and depending on the period of the business transactions.

Furthermore, the “Buy” stage for tea can involve prior inspection processes and laboratory testing. Although this process is optional, it is often undertaken by importers because if deficiencies are found at the general inspection stage at the quarantine station of
the MHLW at the port, the delivery cannot proceed and the cost of the international delivery is wasted. Therefore, when new types of tea become available for export, importers collect samples from exporters and send these samples for testing at an official laboratory designated by the MHLW to ensure the appropriateness of the product. Auto parts may also require an additional inspection stage. This inspection is conducted by the Ministry of Economy, Trade and Industry (METI) when the items fall into the category of listed items that require a special export license. This inspection can also be conducted at the general inspection stage at the port, but if a defect is detected at this stage, it may lead to the cessation of the exporter’s export business license, which could eventually terminate the exporter’s business activities as a whole. This is a very high risk, so auto parts exporters usually send an application to the METI to consult about the item before preparing those items for shipping. For other items, inspections are conducted by customs officers at the port.

This study also counted the time taken for international transportation and the days spent for “inland transport to/from warehouse”. The World Bank 2010 Logistics Performance Index (LPI) data indicates that the lead time for exporting and importing is one day. While this figure is consistent with the case of tea importing, it does not match with the findings of this study in relation to used cars. The export of used cars requires whole yards of products to be loaded and transported to the warehouse. As a result, more days are required for the “inland transport to/from warehouse” stage for this product.

According to the LPI data, two agencies are involved in exporting and 1.67 are involved in importing, on average. This is consistent with the findings of this study. For both importers and exporters, packaging and inland transport was handled by one agency and customs clearance by another. In some cases, importers and exporters themselves have inland transport capacity. In that case, only one outside agency is involved.

The shorter “customs and inspections” process of Company D is partly due to the use of air transport by this company. Airports are mostly endowed with one-stop facilities, in which customs and inspections clearance and port authorization are all handled at the same location. Not all sea ports are equipped with such one-stop facilities for customs, inspections and port authorization, and traders have to visit various locations to clear customs, pass inspections and to receive port authorization and warehouse clearance, which adds to the time required for customs and inspections.
Conclusions

The following findings were derived from the interviews of importers of apparel and tea and the exporters of auto parts and used cars in Japan:

- While trade facilitation has led to tremendous improvements in customs clearance procedures, documentation and standardization, the cost of importing and exporting goods remains a major concern among most companies interviewed in this study.
- Almost all the companies interviewed in this study stated that transportation costs and trade transaction costs constitute the major share of traded goods’ values.
- Sanitation inspection was described by small-scale companies and individual traders as “bureaucratic” and trade in spare parts is subject to stringent controls relating to the purpose of the purchased items and the end users’ information.
- While there have been improvements in computerizing and standardizing documents for customs clearance, the paperless and automated import/export system still appears to have limited use.
- Unpredictable rules and local practices as well as language barriers (resulting in delays and misunderstanding of terms of trade) were cited as major hurdles to trade by some companies (for example, strict and ever changing regulations in the textile industry in China, cumbersome and expensive import duties on used cars in Sri Lanka, cases of bribes in the export of spare parts).
- The numbers of documents needed to complete trade transactions differ based on a) the size of the company and trade volume, b) period in business, c) trading partner country, and d) type of goods.
- Time and cost to trade differ by various 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 processes with regard to the integration of the online application system, for instance, more extensive examination and surveys are required.
- While trade processes and procedures are not considered to be inefficient (Figure 1 right-hand side), the interviewed companies perceive that the system is not transparent and is costly (including costs such as customs and documentation costs and transportation and packing costs).

Figure 1. The objective and role of trade facilitation
References


Annex: BPA diagrams
BUSINESS PROCESSES OF SPARE PARTS EXPORT FROM JAPAN TO CHINA BY SEA
1. Buy

- Exporter
  - Exporter’s subcontractors
    - Place order
      - Send Quotation (with lead-time, price)
        - Bank Transfer
          - Receive Payment
            - Prepare and send products
  - Prepare Quotation (with lead-time, price)
  - Proforma Invoice
  - Prepare shipment

- Importer
  - Communicate order
  - Receive purchase Order/LC
  - Not acceptable
    - Cancel
  - Acceptable

Processing flow:
- Exporter
  - Place order
  - Send Quotation (with lead-time, price)
    - Bank Transfer
      - Receive Payment
        - Prepare and send products
  - Prepare Quotation (with lead-time, price)
  - Proforma Invoice
  - Prepare shipment
- Importer
  - Communicate order
  - Receive purchase Order/LC
  - Not acceptable
    - Cancel
  - Acceptable
2. Import-Export Flows

- Exporter
- Importer
- Oversea Agency of Exporter
- Export
- Oversea Logistics of Exporter
- Domestic Supplier “Shita uke”
- Oversea branch of supplier “Shita uke”
- Logistics
- Information System Management
2.1 Shipment flows

Exporter's or Forwarder's Store → Nagoya Port

Subcontracting maker → Customs Clearance

Ministry of Trade → Customs office

Designated port for customs clearance

B/L from shipping company

Customs documents to buyer
2.2 Shipment Preparation

Carrier

Exporter/representative

Reserve cargo

Booking Request

Incorrect

Correct

Schedule the pick-up and delivery of container

Booking Request

Acknowledgement of booking confirmation

Booking Confirmation

Incorrect

Correct

Draft Bill of Lading

Acknowledgement of booking

Acknowledgement of booking
2.3. Prepare Export Document

Exporter

- EXP Form from bank
- Collect and complete EXP Form
- Compile EXP and other documents
- Commercial invoice
- EXP Form
- Declaration
- Packing list
- Insurance certificate
- L/C

Exporter’s Bank

- Receive request
- EXP Form
2.4. Arrange Inspection (for Specific Products)

Exporter

- Send request for inspection
  - Forwarding letter
  - Proforma invoice
  - Packing List
  - Inspection report

Inspecting Agency (In house) → Ministry of Economy, Trade, and Industry

- Receive documents
- Visit store (eg. Fibers)
- Prepare for inspection
- Conduct inspection
- Not approved
- Approved
- Issue Inspection Certificate
- Inspection certificate
- Inspect problems
- Address problems
2.5 Clear goods through customs

Inland Haulage

- Transfer container to point of inspection

Customs

- Inspect cargo
  - Randomly selected
  - Randomly not selected
  - Misconduct found
    - Record a case to be filed
    - Misconduct found
      - Record the quantity exported
      - Issue shipping bill
      - Clear
        - Record the quantity exported
        - Issue shipping bill
        - Shipping Bill
        - Seal Container
          - Seal Container

Exporter or Representative

- Submit supporting documents
  - CI
  - EXP
  - Pack List
  - Insurance
  - Inspection Certificate/Special Export License for Listed Items

Receive Shipping Bill and signed EXP Form
2.6 Prepare documents required by importer

- Exporter
  - Prepare documents for importer
    - Commercial Invoice
    - Bill of Lading
    - Packing list
    - Insurance Certificate
    - Application for Certificate of Origin

- Agency of Exporter
  - Verify submitted information
    - Incorrect
    - Correct
  - Correct
  - Issue and authenticate the certificate
    - Certificate of Origin (CO)
  - Collect CO

- Customs and Inspection Experts of Exporter
  - Verify submitted information
    - Incorrect
    - Correct
  - Issue and authenticate the certificate
    - Declaration and Certificate
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

Exporter in Japan

1. Receive order with detailed description
2. Get temporary license
3. Buy car from auction
4. Transport car to yard
5. Store car in the yard
6. Clean, repair and prepare car for loading
7. Load car

Importer

Receive updates for verifying & preparing documents for import
Processing Documents for Export of used Car

Exporter in Japan

- Receive documents
- Commercial invoice
- B/L
- Insurance certificate
- Export Form

Exporter’s Bank

- Receive request
- Endorse Documents
- Export form

Collect Documents
Customs Clearance

Exporter

1. Submit customs declaration Form & other documents

2. Import form with Certificate of origin

3. Customs duty payment

4. Issue customs clearance & Release goods

5. Receive Release Order & goods

- Receive and verify Documents
- Cross-check documents & decide whether to inspect goods
- Issue customs clearance & Release goods
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

Export in Sri Lanka

Send samples

Purchase at the auction:
Send quotation,
Lead-time

Issue Invoice

Prepare the shipment of goods

Importer in Japan buying directly from
Tea Plantations in Sri Lanka

Collect samples
(Communicate by e-mail or telephone)

Confirm terms of trade (price, quantity)

Purchase Order/L/C

Ministry of Health, Labor and Welfare, Inspector in Japan

Inspect sent samples

No problem found

Problems found

Send agreed samples for inspection

Not acceptable

Agreement

Ask for other samples in the case of new kinds of tea
Documents Required for Import of Tea

Importer in Japan

- Receive documents from Sri Lanka
  - Commercial invoice
  - B/L
  - Insurance certificate
- Import Form

Importer’s Bank

- Receive request
- Import form
- Endorse Documents

Collect Documents
Receive arrival notice from shipping or airline company

Importer in Japan

Submit customs declaration Form & other documents

- Commercial Invoice
- B/L or Airway Bill
- Import form with Certificate of origin
- Insurance & packing list
- Generalized system of preference (Form A)
- Customs duty payment Slips (if dutiable)
- Notification Form for Importation of Food

Receive Release Order & goods

Issue customs clearance & Release goods

Cross-check documents & decide whether to inspect goods

Retrieve goods from the bonded area

Receive and verify Documents

Japan Customs
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 Landing—Air, Ocean; Customs Declaration, Insurance Policy, Certificate of Origin, Inspection Certificates, and the Letter of Credit.
Buying/Order

- Importer in Japan ordering clothes made of raw material from Japan
  - Communicate order (e-mail or telephone)
    - Send quotation: Lead-time, lot and size
      - Proforma Invoice
      - Prepare the shipment of goods
  - Exporter in China (factory with local raw material)
    - Communicate purchase plan (e-mail or telephone)
      - Send quotation, Availability & Lead-time
        - Proforma Invoice
        - Confirm terms (size, lot, Lead-time)
          - Purchase Order/ L/C
          - Prepare the shipment of goods
        - Not acceptable
          - Renegotiate
          - Agreement
          - Confirm terms of trade (price, quantity)
          - Purchase Order/ L/C
    - Importer in Japan buying directly from factories in China
Documents Required for Import of Textiles

Importer in Japan

Receive documents from China

- Commercial invoice
- B/L
- Insurance certificate

Import Form

Collect Documents

Importer’s Bank

Receive request

Endorse Documents

Import form
Japan Customs

Documents for Bill of Entry (Art. 68)

- Commercial Invoice
- B/L or Airway Bill
- Import form with Certificate of origin
- Insurance & packing list
- Generalized system of preference (Form A)
- Customs duty payment Slips (if dutiable)

Importer in Japan

Verify submitted information

- Correct
- Incorrect

Not approved

Approval of customs Form (C-5020)

Acknowledgment of receipt of Declaration

Final receipt
Japan Customs

1. Receive and verify Documents
2. Cross-check documents & decide whether to inspect goods
3. Retrieve goods from the bonded area
4. Issue customs clearance & Release goods

Importer in Japan

1. Receive arrival notice from shipping or airline company
2. Submit customs declaration Form & other documents
3. Commercial Invoice
4. B/L or Airway Bill
5. Import form with Certificate of origin
6. Insurance & packing list
7. Generalized system of preference (Form A)
8. Customs duty payment Slips (if dutiable)
9. Receive Release Order & goods

Receive Release Order & goods
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

(Igarashi Trading and Matsumura Corporation)