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# “Sensitive Sectors in Japan: An Examination of EPAs Concluded by Japan”

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## Summary

*“Sensitive sectors” in terms of trade policy are sectors protected by high tariff or non-tariff barriers in order to achieve economic policy goals (equitable income distribution, fostering of key industries, etc.), or for political and social reasons. The extent to which sensitive sectors in national economies are mutually recognized, and the extent to which the scope of tariff elimination can be mutually extended, become important issues in FTA negotiations.*

*The purpose of this paper is to determine potential sensitive items in hypothetical FTA negotiations between Japan, China and Korea by studying items that can be considered to be sensitive in EPAs which have already been concluded by Japan. The paper considers the present status of the industries that produce these sensitive items, and presents conclusions and policy implications for an FTA between Japan, China and Korea.*

*Section 1 of the paper provides an outline of the three EPAs concluded by Japan to date and the scope of tariff elimination in the agreements. Section 2 considers the trade relations between Japan and its EPA partners, and determines the sensitive items (items excluded from tariff elimination or subject to tariff elimination after an extended period of time) in the Japan-Singapore, Japan-Mexico and Japan-Malaysia EPAs. On the basis of these examinations, Section 3 summarizes the characteristics of Japan’s sensitive sectors, and indicates items which have a strong possibility of becoming sensitive items in a potential FTA between Japan, China and Korea. Section 4 summarizes the paper and indicates the policy implications of the sensitive sectors in future FTA negotiations conducted by Japan.*

**JEL Classification Number:** F13, F14, F15

**Key Words:** Trade Negotiation, Protection, Economic Integration

## 1. EPAs concluded by Japan

Japan has concluded three FTAs to date: the Japan-Singapore EPA, Japan-Mexico EPA and Japan-Malaysia EPA. This paper examines the tariff structure of these three EPAs in order to determine sensitive sectors in Japan, i.e. those in which protective tariffs are applied.

The percentage of products on which tariffs have been eliminated has increased progressively with each EPA signed by Japan (see Table 1). This is because the EPA negotiations were conducted referring to the tariff systems of the already concluded EPAs. Items from which tariffs have not been removed over the course of three EPA negotiations, or from which the removal of tariffs will take a considerable amount of time, may therefore be conjectured to be sensitive items.

Section 2 of this paper will present an outline of the three EPAs and their tariff structure. Section 3 will determine sensitive items and consider the possibility of the existence of sensitive sectors in an FTA between China, Japan and Korea, and section 4 will suggest policy implications and present concluding remarks.

Table 1 Ratio of tariff elimination

	Japan-Singapore EPA November 30th, 2002.	Japan-Mexico EPA April 1st, 2005	Japan-Malaysia EPA July 13th, 2006
<b>Item</b>	<b>76.8 %</b>	<b>85.7 %</b>	<b>87.5 %</b>
<b>Import value</b>	<b>93.8 %</b>	<b>86.2 %</b>	<b>94.1 %</b>

Note: Ratio of items on which tariffs are to be eliminated within 10 years, calculated using HS 9 digit codes.

## 2. Tariff structure of Japan's three EPA

### 2.1 Japan-Singapore EPA (New-Age Economic Partnership)

Agreement between Japan and the Republic of Singapore for 'A New-Age Economic Partnership' entered into force on November 30<sup>th</sup>, 2002, becoming Japan's first EPA.

General and electrical machinery accounts for the major percentage of trade between Japan and Singapore. Export from Japan to Singapore is three times as exports from Singapore to Japan. Table 2 shows the value of imports from Singapore for Japan in 2000 and 2005.

Table 2 Import value by commodity from Singapore, HS 2 digit code.

ITEM	2000			2005		
	Value	%	%, world	Value	%	%, world
Food and live animals	\$266,385,187	4.1%	0.6%	\$272,491,967	4.1%	0.6%
Beverages and tobacco	\$1,443,467	0.0%	0.0%	\$1,053,384	0.0%	0.0%
Crude materials, except fuels	\$100,928,211	1.6%	0.4%	\$119,122,864	1.8%	0.4%
Mineral fuels	\$498,457,418	7.7%	0.6%	\$1,141,658,397	17.1%	0.9%
Animal and vegetable oils	\$11,235,203	0.2%	1.9%	\$7,999,438	0.1%	0.8%
Chemicals and related products	\$407,248,703	6.3%	1.6%	\$658,655,614	9.8%	1.7%
Manufactured goods	\$101,118,037	1.6%	0.3%	\$79,150,655	1.2%	0.2%
Machinery and transport equipment	\$4,217,023,482	65.6%	4.0%	\$3,150,145,811	47.1%	2.4%
Miscellaneous manufactured articles	\$499,839,544	7.8%	0.9%	\$458,692,571	6.9%	0.6%
Goods not classified elsewhere	\$328,997,531	5.1%	5.3%	\$805,705,083	12.0%	8.7%

Data: COMTRADE, UNCTAD.

Looking at the tariff structure of the Japan-Singapore EPA, we find that while Singapore eliminated import tariffs on all items, Japan eliminated tariffs on approximately 98% of mining and manufacturing products. Japan eliminated tariffs on only 486 agricultural, forestry and fisheries products, effectively placing products in this sector outside the scope of the EPA.

Among mining and manufacturing products, some petrochemical products and some leather products are treated as exceptional items by Japan. The tariffs on these items will be reduced in stages, and eliminated in 2010. All agricultural, forestry and fisheries products other than 486 currently tariff-free items, are excluded from the agreement; in total, 79% of agricultural, forestry and fisheries products are excluded from tariff elimination. . Tables 3 and 4 show the highest tariff rates among agricultural, forestry and fisheries products by ad valorem and specific tariffs. With regard to ad valorem duty, sugar, sugar products, meat of bovine animals, dairy products, corn, processed rice products (*arare* and *senbei*), seaweed, fruits, processed fruits and fruits juice have high tariffs imposed. Looking at specific duties, high tariffs are imposed on konnyaku tubers, pork and pork products, peanuts, dairy products, processed rice products, beans, etc. These are effectively identical to the customs duties applied to these products in trade with countries other than Singapore.

Commitments were made in the Japan-Singapore EPA to reduce tariffs by stages on ten mining

and manufacturing products for elimination in 2010 (see Table 5). Tariffs on gas oils were eliminated in 2006, and tariffs on other petrochemical products will be eliminated by 2010.

Table 3 Highest ad valorem tariffs, agricultural, forestry and fisheries products

Tariff rate	HS code	Item
114.2%	170290521	Sugars and sugar syrups containing added sugar, n.e.s.
85.7%	170230210, 170260210	Glucose and glucose syrup, Other fructose and fructose syrup
78.5%	170240210	Glucose and glucose syrup,
61.9%	170290110	Sugar, including invert sugar and other sugar and sugar syrup blend
52.5%	210690221	Sugar syrup, containing added flavouring or colouring matter
50%	020110-130, 020210-230,020610, 020629, 160250	Maize(corn); Glucose, Sugars, Carcasses, meat, loin, chuck, brisket and plate and others of bovine animals,
40% x < 50%	200820199,121220120, 040620-40,90,121299110	Pineapple, Edible porphyra spp, seaweeds, Cheese, Konnyaku.
30% x < 40%	200710-200799, 190590, 160250, 170290, 080510- 040210-040590,	Prepared meat, Sugar syrup, Milk and cream, Yogurt, Products consisting milk, Arare, Senbei, Fruit puree and pastes, Apple juice, Oranges,

Table 4 Highest specific tariffs

Tariff	HS code	Item
2,796 yen /kg	121299.190	Tubers of Konnyaku
1,035 yen /kg	021011-	Meat of Swine, Hams and shoulders
617 yen /kg	120210-220	Ground nuts
482 yen /kg	020312-	Meat of swine, bellies and cuts
425 yen /kg	040221-	Milk and cream
375 yen /kg	110230-	Rice flour, meals of rice, pellets of rice,
354 yen /k	071332-	peas
341 yen /kg	100610-	Rice in the husk

Table 5 Excluded mining and manufacturing industry items

<b>Eliminated at April 1<sup>st</sup>, 2006</b>	
HS271011151	Gas oils (light oils and preparation), intended for use in the manufacture of petrochemical products stipulated by a Cabinet Order
<b>Eliminated at 2010</b>	
HS390110090	Polymers of ethylene, having a specific gravity of less than 0.94, in liquids and pastes.
HS 390220090	Polyisobutylene, in liquids and pastes
HS 390230090	Propylene copolymers, in liquids and pastes
HS390290090	Polymers of other olefins, in liquids and pastes.
HS 390330090	Acrylonitrile-butadiene-styrene (ABS) copolymers, in liquids and pastes.
HS 390311090	Expansible polystyrene, in liquids and pastes.
HS 390120090	Polymers of ethylene, having a specific gravity of 0.94 or more, in liquids and pastes.
HS390210090	Polypropylene, in liquids and pastes.

## 2.2 Japan-Mexico EPA

The Japan-Mexico EPA (Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership) entered into force on April 1<sup>st</sup>, 2005.

Electrical and general machinery and transport equipment account for the majority of Japan's imports from Mexico at more than 30%, followed by agricultural products and processed foods (more than 20%) and crude materials (19%). Although these represent relatively small shares of the world total, the importance of Mexico as a gateway to North and South America and the possibility of increasing exports of automobiles and electrical machinery through the elimination of tariffs was sufficient incentive for Japan to negotiate an EPA with Mexico.

Table 6 Import value by commodity from Mexico, HS 2 digit code.

ITEM	2004			2005		
	Value	%	%, world	Value	%	%, world
Food and live animals	\$485,527,688	22.4%	1.1%	\$513,197,911	20.2%	1.1%
Beverages and tobacco	\$17,051,454	0.8%	0.3%	\$15,404,206	0.6%	0.3%
Crude materials, except fuels	\$282,443,670	13.0%	1.0%	\$483,425,282	19.1%	1.5%
Mineral fuels	\$54,842,019	2.5%	0.1%	\$1,149,004	0.0%	0.0%
Animal and vegetable oils	\$3,271,851	0.2%	0.4%	\$3,200,534	0.1%	0.3%
Chemicals and related products	\$92,423,487	4.3%	0.3%	\$67,374,744	2.7%	0.2%
Manufactured goods	\$137,685,182	6.3%	0.3%	\$99,718,245	3.9%	0.2%
Machinery and transport equipment	\$728,185,904	33.5%	0.6%	\$881,911,699	34.8%	0.7%
Miscellaneous manufactured articles	\$347,891,863	16.0%	0.5%	\$440,696,985	17.4%	0.6%
Goods not classified elsewhere	\$22,700,109	1.0%	0.3%	\$29,099,043	1.1%	0.3%

Data: COMTRADE, UNCTAD.

The Japan-Mexico EPA is Japan's second FTA, but the first to include an agreement on the elimination of tariffs on agricultural, forestry and fisheries products. Of 2247 agricultural, forestry and fisheries products (HS01-24, 44, 46) in HS 9-digit code, 1147 products are excluded; the remaining 1097 products were already tariff-free, have had tariffs eliminated, or tariffs are being reduced for eventual elimination. With respect to general tariffs, as with the Japan-Singapore EPA many agricultural products are excluded from the agreement, including grain products (rice and wheat), sugar and sugar products, dairy products, nuts, fruits and plywood.

Ten years will be required for the elimination of tariffs on corn powder, processed vegetables, fruits such as bananas, pears and peaches, processed leather, footwear and shoes. These products can also be considered sensitive items, in addition to the excluded products.

78 mining and manufacturing products are excluded from the agreement. Many of these are in the categories tanned and dressed furs and skins, silk and footwear. Table 7 shows the categories with the most excluded items by 6-digit HS code.

Table 7 Top 8 categories of excluded items

HS code, 6 digit	Item
190190	Food preparations of flour, meal, or starch, containing groats, meal, pellets of rice.
210690	Food preparations containing natural milk, groats, meal, pellets of rice, wheat, barley, or surar, syrup
190120	Mixes and doughs for the preparation of baker's wares
040410	Whey
040390	Butter milk
200819	Nut
200899	Fruits
441213	Ply wood

Note; Excluded items are 1225 items by 9 digit of HS code.

Table 8; Tariffs which are eliminated after more than 10 years

HS code, 6 digit	Item
080300	Bananas
110220	Maize (corn) flour
200490-200590	Prepared or preserved vegetables and beans
200799	Fruit or nut puree and paste
200840	Prepared or preserved pears
200870	Prepared or preserved peaches
200892-200990	Mixture of fruits, Juice of fruits
210690	Food supplement with a basis of vitamins
220210	Waters
220590	Vermouth and other wine of fresh grapes flavoured
410120-41044	Whole hides and skins, tanned or crust hides of bovine
410530-410622	Tanned or crust skins of sheep, goats
410711-411310	Whole leather of bovine, sheep and goats
640320-640590	Foot ware, shoes

### 2.3 Japan-Malaysia EPA

The Japan-Malaysia EPA (Agreement between the government of Japan and the Government of Malaysia for an economic partnership) entered into force on July 13<sup>th</sup>, 2006.

The major trade products between Japan and Malaysia are general and electrical machinery and devices and parts. In 2004, general and electrical machinery accounted for 35% of Japan's imports from Malaysia and 45% of Japan's exports to Malaysia. Mineral fuels such as petroleum also account for a large part of Japan's imports from Malaysia, recording 34%. Imports of agricultural, forestry and fisheries products from Malaysia amounted to 4% in 2005...

In Japan-Malaysia EPA, similar to Japan-Mexico EPA, agricultural, forestry and fishery product are target of the agreement of tariff elimination.

Compared with Japan-Mexico EPA, the number of the exclusion items of tariff elimination decreased in agricultural, forestry and fishery product, that is 725 items in 9 digits of HS code. On

the contrary, exclusive items in mining and manufacturing products increased and amount to 103 items because exclusive items in category of foot-ware and shoes increased in comparison with Japan-Mexico EPA.

Regarding on the remaining products, both agricultural, forestry and fishery industry and mining and manufacturing industry have common exclusive items to Japan-Mexico EPA, such as grain products of rice and wheat and others, sugar and sugar products, dairy products, nuts, and fruits and fruits products.

On the other hand, there are more items which take more than ten years to elimination of tariff than Japan-Mexico EAP. Most of that are agricultural products, for example bird's egg, vegetables such as burdock, potato, onion, egg-plant, fruits and processed fruits, grain products, tea and animal food. As for the mining and manufacturing product, tariffs of volatile oils such as alcohol, petrochemical products such as polyester, processed leather, foot ware and shoes takes long time to elimination, namely these are sensitive items.

Table 9; Import value by items from Malaysia, 2 digit HS code.

ITEM	2005		
	Value	%	%, world
Food and live animals	\$169,880,419	1.2%	0.4%
Beverages and tobacco	\$7,479,690	0.1%	0.1%
Crude materials, except fuels	\$522,029,511	3.6%	1.6%
Mineral fuels	\$4,923,646,412	33.6%	3.7%
Animal and vegetable oils	\$317,961,532	2.2%	32.7%
Chemicals and related products	\$781,568,048	5.3%	2.1%
Manufactured goods	\$1,312,590,089	8.9%	2.8%
Machinery and transport equipment	\$5,188,080,271	35.4%	3.9%
Miscellaneous manufactured articles	\$947,415,536	6.5%	1.3%
Goods not classified elsewhere	\$498,805,746	3.4%	5.4%

Data; COMTRADE, UNCTAD.

Table 10; Top 8 groups, which include excluded items

HS code, 6 digit	Item
<b>190190</b>	<b>Food preparations of flour, meal, or starch, containing groats, meal, pellets of rice.</b>
<b>210690</b>	<b>Food preparations containing natural milk, groats, meal, pellets of rice, wheat, barley, or surar, syrup</b>
<b>190120</b>	<b>Mixes and doughs for the preparation of baker's wares</b>
<b>160250</b>	<b>Prepared or preserved meat offal or blood of bovine animals</b>
<b>040390</b>	<b>Butter milk</b>
<b>170290</b>	<b>Sugar, syrup</b>
<b>040221</b>	<b>Milk and cream, in powder, granules or other solid forms.</b>
<b>030269</b>	<b>Fish (Buri, Tara, Aji,,)</b>

Table 11; Excluded items of mining and manufacturing (HS25-43, 45, 47-99 )

HS code	Item	Japan-Mexico	Japan-Malaysia
<b>25</b>	<b>Salt</b>	<b>1</b>	<b>1</b>
<b>29</b>	<b>Alcohols and their derivatives.</b>	<b>2</b>	<b>4</b>
<b>33</b>	<b>Essential oils</b>	<b>7</b>	<b>0</b>
<b>35</b>	<b>Casein, Albumins, Gelatin, peptones</b>	<b>12</b>	<b>5</b>
<b>41</b>	<b>Chamois leather</b>	<b>0</b>	<b>3</b>
<b>42</b>	<b>Articles of apparel of leather</b>	<b>3</b>	<b>4</b>
<b>43</b>	<b>Furskins, apparel of furskins</b>	<b>23</b>	<b>21</b>
<b>50</b>	<b>Silk, raw and cocoons</b>	<b>12</b>	<b>12</b>
<b>64</b>	<b>Foot ware and shoes.</b>	<b>18</b>	<b>53</b>

Table 12; Tariffs which are eliminated after more than 10 years

HS code, 6 digit	Item
<b>040811-040891</b>	<b>Bird's egg, Egg yolks</b>
<b>071080-</b>	<b>Burdock, Potatoes, Onions, Sweet potatoes, Egg-plants,</b>
<b>080240-</b>	<b>Chestnuts, Oranges, Mandarins, Cherries,</b>
<b>090220-</b>	<b>Green tea, Black tea</b>
<b>110320-</b>	<b>Flaked grains and pellets of oats, of corn,</b>
<b>110510-</b>	<b>Powder of potatoes, of bananas</b>
<b>190510-</b>	<b>Crisp bread, crisp savoury food products</b>
<b>200190-</b>	<b>Young corncobs, Tomatos, Potatoes, Cucumbers, Mushrooms, Asparagus, Garlic powder, peas, Marrons glace</b>
<b>200791-</b>	<b>Fruits jams and jellies,</b>
<b>200819-</b>	<b>Chestnuts, Pears, Peaches, Strawberries,</b>
<b>200911-</b>	<b>Orange juice, Grapefruit juice, Grape juice, Apple juice</b>
<b>22030-</b>	<b>Wine of fresh grapes, Alcoholic beverages,</b>
<b>230910-</b>	<b>Dog or cat food</b>
<b>271022-</b>	<b>Petroleum spirits, Kerosenes, Gas oils, Heavyfuel oils, Raw oils</b>
<b>290611-</b>	<b>Cyclic alcohols; Menthol I</b>
<b>390110-</b>	<b>Polyethylene, Polypropylene, Styrene</b>
<b>410120-</b>	<b>Whole hides and skins, Tanned or crust hides and skins of bovine, sheep, goats and others.</b>
<b>640320-</b>	<b>Foot wear and shoes, and its parts.</b>

### 3. Sensitive items in Japan.

When the items which are excluded of three concluded EPA or imposed high tariff rate for long time after conclusion of EPA are regarded as sensitive items, we can find majority of Japan's sensitive items are from agricultural industry. The common sensitive items in agricultural industry to three EPAs are grain and grain product, dairy product, meat of bovine animals, nut, vegetables such as Konnyaku tuber, sugar and sugar product, fruits and fruits products, some fishes, and plywood.

Regarding on mining and manufacturing products, major sensitive items are processed leather, foot ware and shoes. Moreover, petrochemical products in Japan-Singapore EPA, animal and

vegetable oils and materials, such as essential oil, albumin and casein, are excluded items.

As examined above, there is a wide range of sensitive item, and agricultural products account for the most part of them in Japan. The main reason for these protective tariffs is that these items are produced by low competitive petty farmers, and the principal products of local district, and specific areas which needs protection policy for revision of income disparity. This protective tariff policy has been reflected the principle of an economic and political target of Japan after World War II, namely ‘equal development of the every region’. Therefore protection of the specific items has remained for instance, Potato of Hokkaido Prefecture and sugar of Okinawa Prefecture. Likewise, other specific products, such as Konnyaku tuber, processed leather, and foot ware and shoes are protected because of politics and a social background.

Table 13; Summary; Sensitive items

	Sensitive items
Agricultural, forestry and fishery industry	<b>Rice, products of grains and cereals,</b> <b>Milk and dairy products.</b> <b>Meat of bovine animals,</b> <b>Nuts, vegetables (beans, onion, Konnyaku tuber, etc)</b> <b>Fruits (Orange, apple, banana, pineapple, etc)</b> <b>Sugar and sugar products</b> <b>Plywood</b>
Mining and manufacturing industry	<b>Processed leather</b> <b>Crude materials (Casein, Albumin, etc)</b> <b>Petrochemical</b> <b>Foot ware and shoes</b>

Next, we consider which items will be sensitive when a China-Japan-Korea FTA will start negotiation. Table 14 and 15 show import values by 2 digits of HS code from China and Korea respectively, and colored rows denote sensitive items. In spite of being protected by the present comparatively high tariff rate, there are much import values of foot ware and shoes (HS42), leather article (HS42), fish and crustaceans (HS03), wood and articles of wood (44), and preparations of vegetables and fruits (HS20) from China, and organic chemicals (29), fish and crustaceans (HS03) and beverages (HS22). The tariff reduction and elimination to these items will be considered to be meet resistance from these producers because they are already influenced and expect severe competition. Furthermore, import value of rice, silk, sugar and sugar products, dairy products and meat have been comparatively very few because of high tariff rate or non tariff barrier such as quota. Regarding these sensitive items not only tariff elimination but also non-tariff barriers will comes up for discussion.

Table 14; Import value from China, by 2digit HS code.

From China				
Rank	HS		value	%
1	85	Electrical machinery and equipment	\$20,026,594,260	18.5%
2	84	Machinery and mechanical appliances	\$19,177,841,666	17.7%
3	62	Articles of apparel, not knitted	\$9,122,272,715	8.4%
4	61	Articles of apparel	\$8,324,957,539	7.7%
5	95	Toys, games and sports requisites	\$3,912,542,619	3.6%
6	27	Mineral fuels, mineral oils	\$3,360,151,842	3.1%
7	90	Optical, photographic, cinematographic	\$3,353,010,372	3.1%
8	94	Furniture	\$2,820,478,344	2.6%
9	64	Footwear, gaiters and the like	\$2,485,479,633	2.3%
10	16	Preparations of meat, of fish	\$2,436,357,740	2.2%
11	39	Plastics and articles thereof	\$2,320,263,203	2.1%
12	42	Articles of leather	\$2,221,958,764	2.0%
13	73	Articles of iron or steel	\$1,967,498,417	1.8%
14	63	Other made up textile articles	\$1,786,563,973	1.6%
15	03	Fish and crustaceans	\$1,573,908,588	1.5%
16	87	Vehicles	\$1,529,437,786	1.4%
17	72	Iron and steel	\$1,483,975,740	1.4%
18	28	Inorganic chemicals	\$1,479,935,906	1.4%
19	44	Wood and articles of wood	\$1,398,557,744	1.3%
20	07	Edible vegetables	\$1,105,438,012	1.0%
21	20	Preparations of vegetables, fruit or nuts	\$1,097,489,916	1.0%

Data; COMTRADE, UNCTAD.

Table 15; Import value from Korea, by 2digit HS code.

From Korea				
Rank	HS		value	%
1	85	Electrical machinery and equipment	\$6,332,932,263	25.9%
2	84	Machinery and mechanical appliances	\$3,353,005,644	13.7%
3	27	Mineral fuels, mineral oils	\$3,153,264,766	12.9%
4	72	Iron and steel	\$2,162,141,638	8.9%
5	90	Optical, photographic, cinematographic	\$1,257,727,670	5.2%
6	39	Plastics and articles thereof	\$911,116,805	3.7%
7	99	Commodities not specified according to kind	\$816,422,627	3.3%
8	29	Organic chemicals	\$806,858,253	3.3%
9	73	Articles of iron or steel	\$600,394,926	2.5%
10	03	Fish and crustaceans	\$543,906,410	2.2%
11	87	Vehicles	\$334,823,949	1.4%
12	61	Articles of apparel	\$294,565,442	1.2%
13	76	Aluminum and articles thereof	\$243,677,039	1.0%
14	48	Paper and paperboard	\$224,493,897	0.9%
15	71	Natural or cultured pearls	\$200,717,185	0.8%
16	38	Miscellaneous chemical products	\$174,713,826	0.7%
17	40	Rubber and articles thereof	\$173,638,584	0.7%
18	74	Copper and articles thereof	\$147,583,838	0.6%
19	22	Beverages, spirits and vinegar	\$141,995,283	0.6%
20	28	Inorganic chemicals	\$131,945,555	0.5%
21	70	Glass and glassware	\$130,518,089	0.5%

Data; COMTRADE, UNCTAD.

#### **4. Policy implications and conclusion**

Most of sensitive items which are pointed out above sections have been liberalized gradually through WTO negotiations and EPA negotiations. Moreover, Japan is one of major food import country in the world, and the tariff on agriculture and fishery products are low in comparison with China and Korea except for some items such as rice. Therefore, it is the most important subject for Japan to increase competitive position and to speed up structural reforms of sensitive sectors, and to cope with domestic and foreign consumer's demand flexibly.

Moreover, it is necessary to speed up to change from protection by tariff to direct income compensation by financial subsidies, because it is obvious that we cannot justify paying the cost of protection of sensitive sectors by tariff namely price control from a view of long-term economic structure and Japan's problems such as aging society and low growth economy.

On the grounds of these situations, FTAs, which will be concluded in the near futures, including CJK FTA, should aim at superior quality at tariff structure. For the purpose of that, industrial policy for sensitive sectors is required not to fix one sector sensitive on.

On the other hand, government has an accountability to show how it costs to protect the sectors by tariff or tariff exclusion and what policy instruments are conduct to improve productivity of the sectors. Moreover, non-tariff barriers, which remain on agriculture sectors, should change to tariff rate in order to clarify how much barriers on each items and to be argued widely on agricultural sector as one sector of whole economy.

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