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Benefits of Free Trade Agreements for SMEs

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Benefits of FTAs for SMEs

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Outline

- Importance of SMEs in APEC Economies:
The case of Japan
- FTAs in Asia-Pacific
- Benefits of FTAs for SMEs
- FTA Utilization by Japanese Firms
- Obstacles for Using FTAs by Japanese Firms
- Ways to Promote Utilization of FTAs by
SMEs

Importance of SMEs in APEC Economies: The Case of Japan

Magnitude (quantity)

- Number of firms: 99.7 %
- Number of employees: 69.4%
- Manufacturing value added: 47.7%

Qualitative importance

- Source of dynamism
- Support large firms
- Major players in industrial clusters
- Major players in regional economy

Benefits of FTAs for SMEs

Export expansion resulting from

+ Trade liberalization

- Increased access in markets (possibly in government procurement market)

+ Trade facilitation

- Efficient customs procedure
- Improved transparency in trade policies
- Mutual recognition of technical standard
- (Enforcement of competition rules)

FTA Utilization by Japanese Firms (1)

(questionnaire survey, RIETI, 2008)

| Firms by size: paid-in capital (yen) | # of firms | # of firms using FTA | Share of total (%) |
|--------------------------------------|------------|----------------------|--------------------|
| x > 10 billion | 79 | 15 | 19.0 |
| 10 billion > x > 1 billion | 128 | 19 | 14.8 |
| 1 billion > x > 100 million | 285 | 24 | 8.4 |
| 100 million > x > 50 million | 226 | 13 | 5.8 |
| 50 million > x > 10 million | 751 | 58 | 7.7 |
| 10 million > x | 144 | 12 | 8.3 |
| na | 71 | 9 | 12.7 |
| Total | 1,684 | 150 | 8.9 |

FTA Utilization by Japanese Firms(2)(%) (questionnaire survey by JETRO, 2010)

| Japan's FTAs with | Total | Large | SMEs |
|-------------------|-------|-------|------|
| Thailand | 43.2 | 45.2 | 41.1 |
| Malaysia | 28.9 | 35.0 | 22.7 |
| Indonesia | 33.0 | 41.0 | 23.4 |
| Philippines | 26.1 | 33.5 | 16.3 |
| Vietnam | 32.7 | 36.2 | 28.7 |

Obstacles for Using FTAs by Japanese Firms (%) (questionnaire survey, RIETI, 2008)

| | FTA partners | | |
|---|--------------|----------|-------|
| | Mexico | Malaysia | Chile |
| Trade volume with FTA partner is small | 32.0 | 26.3 | 16.7 |
| Lack of knowledge of FTAs | 28.0 | 26.3 | 18.5 |
| Difficulty in acquiring certificate of origin | 20.0 | 17.7 | 35.2 |
| FTA tariff preference is small | 6.0 | 9.1 | 1.9 |
| MFN tariff rate is lower than FTA rate | 0.0 | 1.7 | 0.0 |
| Under consideration | 4.0 | 10.3 | 13.0 |
| Others | 16.0 | 13.7 | 24.1 |
| NA | 14.0 | 20.0 | 9.3 |
| Number of responding firms | 50 | 175 | 54 |

Ways to Promote FTA Utilization by SMEs

- + Disseminate information on the existence and the benefits of FTAs
- + Simplify the use of FTAs:
 - establish common rules of origin between and among different FTAs
 - adopt co-equal rules of origin
- + Provide technical assistance to prepare for the application for obtaining certificate of origin