


Preferential Trade Agreements of China, Japan and Korea: Towards Deeper Integration



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While the negotiations of the World Trade Organization (WTO) have not shown much progress, preferential trade agreements (PTAs) have become the main tool for pursuing liberalization in international trade for decades. Modern PTAs have evolved, including not only liberalization in trade in goods, but also in investment, services and many other aspects of trade. Moreover, regulatory coherence and harmonization has been emphasized, due to the prevalence of multinationals and global value chains.

Under the WTO regime, the tariffs of China, Japan and Korea are relatively low. Given the active supply chain in the region and the low level of tariff rates, it is in the three countries' interest to pursue deeper integration: harmonization of domestic economic policies removing behind-the-border barriers. Modern PTAs include deep integration provisions to increase compatibility across different member countries, to facilitate international trade. Deep integration PTAs go beyond the existing WTO agreements and include provisions dealing with new trade issues.

Despite the proliferation of PTAs around the world, the three Northeast Asian countries, China, Japan and Korea have yet to conclude the trilateral

eral China-Japan-Korea (CJK) FTA. There have been 11 rounds of negotiations since 2010, but little progress has been made. Nonetheless, there is no doubt that a successful CJK FTA will play an important role in the region, economically and politically.

Choi and Lee (2017) examine the PTAs of China, Japan and Korea whose date of entry into force is prior to February 2015, and compare how each country's approach is different in various areas. The average number of provisions in WTO+ areas (provisions reconfirming existing commitments and providing for additional obligations specified in the WTO agreement) is the greatest for Korea's PTAs, followed by Japan and China; out of 14 WTO+ areas, Korea's PTAs include 12.9 areas per PTA, while Japan's PTAs and China's PTAs include 11.4 and 10 areas each per PTA. Out of 38 WTO-X areas (provisions in areas outside the mandate of the WTO), Korea includes 11.1 areas per PTA, while China includes 7.9 and Japan includes 9.4.

While the outcome of PTA negotiations depend not only on China, Japan and Korea but also on the partner countries' stance on each area, we observe that Korea's PTAs tend to actively include provisions regarding non-tariff measures such as SPS (Sanitary and Phytosanitary measures) and TBT (Technical Barriers to Trade); every PTA includes provisions in the areas, although some PTAs' provisions may not allow dispute settlement, and thus may have some limitations in legal enforcement. On the other hand, some of Japan's PTAs with individual ASEAN member states such as the PTAs with Thailand, Indonesia and Philippines, do not cover TBT and SPS. It is interesting, though, that these areas are covered in the Japan-ASEAN PTA.

We also observe that all three countries' PTAs tend to increasingly include more provisions in the WTO-X areas. This implies that China, Japan and Korea are not an exception when it comes to covering more diverse issues in their more recent PTAs. Among the three countries, China's PTAs have shown the most dramatic change, actively encompassing diverse areas and going beyond the current mandate of the WTO in its PTAs' provisions. China's PTAs expand from traditional trade issues in goods and in services to a broader coverage including investment, competition policy, intellectual property rights, environment, economic and technical cooperation, and even potentially trade remedies and government procurement provisions. For example, environmental issues began to be gradually included in China's PTAs that have recently entered into force. The Korea-China FTA includes the environment chapter where the agreement is evaluated as the most comprehensive of all of China's FTAs.¹

In sum, the depth and comprehensiveness of China's PTAs are converging to the level to PTAs signed by Korea and Japan. Therefore, there is ample possibility to pursue a deeper agreement between the three countries. Reflecting the three countries' interest in cooperation in diverse trade-related issues, at the 11th round of negotiations of the CJK FTA, the three countries agreed to further discuss regulatory areas such intellectual property rights and e-commerce in future meetings. Thus, much research on the new trade issues, accompanied by a careful approach, is required on the part of the three Northeast Asian countries, to promote further integration of the regional value chain. [KIEP](#)

References

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