

Free trade agreements and economic cooperation among Japan, China, and Korea

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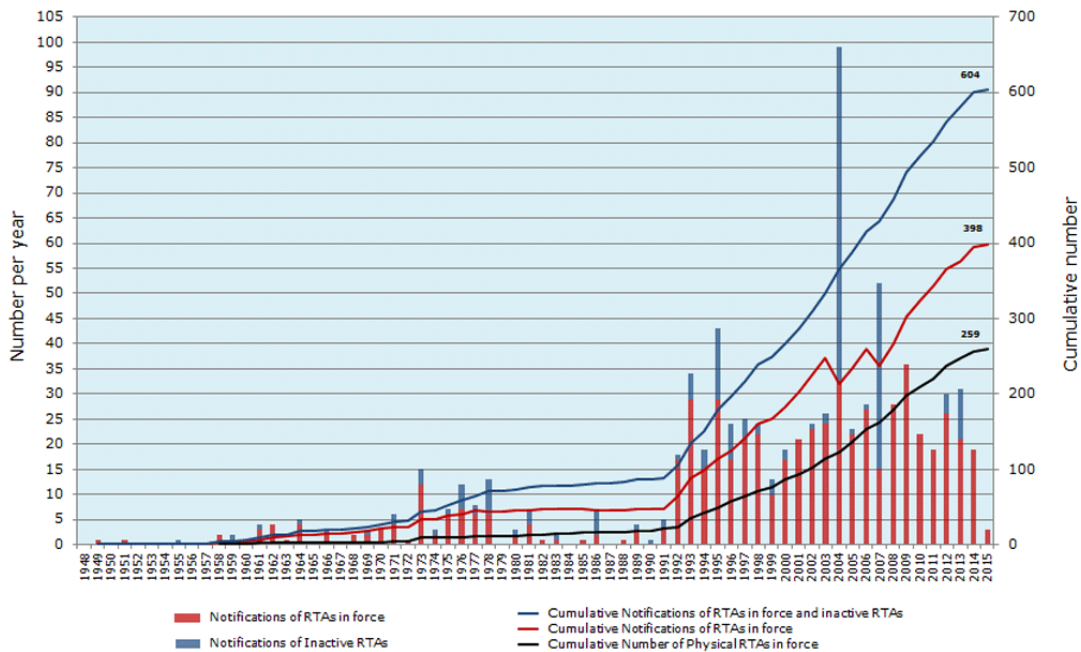
Abstract

Japan, China and South Korea countries are at a big position for not only Asian economy but also the world economy. Japan, China and South Korea FTA contribute to not only the promotion of the trade and the investment between three countries but also the achievement of FTAAP. Therefore, if these three countries can construct economic cooperation, a considerably large-scale economic bloc will be formed in the world economy to say nothing of East Asian region. It will have a big influence. It will become a help of the history perception issue and the conclusion of the territory issue that is common problem to not only an economical advantage but also three countries. Therefore, Japan, China and South Korea FTA will become extremely important regional uniting that can contribute peacefully of Asia. This report clarifies the meaning and the problem of Japan, China and South Korea FTA.

Introduction

Regional economic integration has been rapidly advanced around the world. It is shown by the increase of the number of RTAs (regional trade agreements) since the early 1990s. As of January 8, 2015, 604 RTAs (counting goods, services, and accessions separately) have been reported to the GATT/WTO, with 398 FTAs (free trade agreements) in force.¹

Figure 1 Evolution of Regional Trade Agreements in the world, 1948-2015



Source: WTO Secretariat

http://www.wto.org/english/tratop_e/region_e/regfac_e.htm#top

Foreign direct investment (FDI) has also been growing as the number of RTAs has been increasing. Despite its stagnation in 2012, FDI increased by 9% to \$1.45 trillion in 2013 and to \$1.6 trillion in 2014. It is estimated to reach \$1.7 trillion in 2015 and \$1.8 trillion in 2016.ⁱⁱ

In the world economy, while free trade is vigorously carried out, countries are actively seeking to expand their *economic territories* by taking advantage of FTAs to further promote free trade.ⁱⁱⁱ

On the other hand, there is an argument that FTAs have important roles to play in today's world economy. The first role is to improve negotiation efficiency by decreasing the number of negotiating entities. It is easier to promote negotiations on multilateral trade liberalization when they are carried out between regions after regional integration than between countries. The second role is to strengthen the negotiating power of small countries. Economically weak countries are able to strengthen their abilities to negotiate with economic powers to promote trade liberalization through regional integration. The third role is to decrease political opposition from declining industries by promoting domestic industrial adjustment. Adjustment of domestic industrial structures promoted by conclusion of FTAs leads to reduction of the scale of declining industries, which will decrease their opposition to multilateral trade liberalization in the long run. The fourth role is to encourage developing countries to participate in multilateral negotiations through economic growth and make it easier for them to conclude FTAs. If developing countries that are negative about multilateral trade liberalization enter into an FTA with developed countries, direct investment inflows into developing countries will increase and domestic reform and liberalization will be promoted, which will encourage them to advance negotiations.

Table 1 Main reasons that FTAs promotes multilateral trade liberalization

Decrease in the number of negotiating entities (Summers 1991; Rugman 1993)	It is easier to advance negotiations on multilateral trade liberalization when they are carried out between regions after regional integration than between countries.
Enhancement of the negotiating power of small countries (Lawrence 1996)	Countries with small economies strengthen their abilities to negotiate with economic powers to promote trade liberalization through regional integration. (Example: MERCOSUR against the USA)
Promotion of domestic industrial adjustment (Wei and Frankel 1995)	Adjustment of domestic industrial structures promoted by conclusion of FTAs leads to reduction of the scale of declining industries, which will decrease their political opposition to multilateral trade liberalization in the long run.
Provision of motivation for developing countries to participate in multilateral negotiations through promotion of domestic reform (Ethier 1998)	If developing countries that are negative about multilateral trade liberalization enter into an FTA with developed countries, direct investment inflows into developing countries will increase and domestic reform and liberalization will be promoted, which will encourage them to advance negotiations.

(Source) The Ministry of Economy, Trade and Industry “*White Paper on International Economy and Trade 2001*”

In addition, conclusion of FTAs induces non-member countries to sign them. In other words, a so-called domino effect is triggered, in which those countries seek to sign FTAs to overcome their disadvantages they suffer as outside nations.^{iv} Moreover, as the round of trade negotiations by the WTO remains in a deadlock, WTO member countries feel sick of it and there is a growing tendency among them to sign FTAs. This is also one of the factors that promote FTAs. The birth of giant economic zones such as the NAFTA (North America Free Trade Agreement) in 1993 and the EU (European Union) in 1994 also drives many developing countries to sign FTAs.

In addition, the Enabling Clause^v is applied to FTAs between developing countries and it is not always necessary to fully secure compliance with the WTO agreement (Article XXIV of the GATT and Article V of the GATS). This is also a major factor in accelerating FTAs.^{vi}

2. Types of regional integration

There are various types of regional integration. Balassa (2011) categorizes regional integration into five types according to the degree of integration; (1) Free Trade Area (abolition of tariffs between member countries) (2) Customs Union (establishment of a

common external tariff), (3) Common Market (free movement of capital and labor), (4) Economic Union (harmonization of taxation measures, regulations, and economic policies), and (5) Complete Economic Integration (unification of budget systems and currency practices)^{vii}

Table 2 Types of regional integration

Free Trade Area	Abolition of tariffs between member countries
Customs Union	Establishment of a common external tariff
Common Market	Free movement of capital and labor
Economic Union	Harmonization of taxation measures, regulations, and economic policies
Complete Economic Integration	Unification of budget systems and currency practices

Source: Bela Balassa, *“The Theory of Economic Integration.”* Routledge 2011.

Recently it is said that regional integration has been moving beyond simple tariff reductions toward deeper integration where barriers among member countries in terms of investment and services, labor markets, regulations and economic policies, and even currency integration are reduced or eliminated.^{viii} Lawrence (1996) refers to integration or collaboration that incorporates elements other than trade liberalization such as dispute settlement and mutual coordination of national policies as deeper integration and distinguishes it from shallow integration, that is, integration aimed at trade liberalization.^{ix}

In addition, it is considered that regional integration has the following five economic effects.

- i) Trade creation effect. In this case, regional trade barriers are eliminated, and thus regional trade that has been conducted among member countries is expanded. Consumers of importing countries are able to purchase imported goods and services at cheaper prices and producers of exporting countries benefit from export expansion, which means the economic welfare of member countries is improved.
- ii) Trade diversion effect. An FTA only eliminates regional trade barriers and imposes tariffs on imports from extra-regional countries that are able to produce goods at a lower cost. As a result, imports from such extra-regional countries are replaced by imports from higher-cost regional producers with no tariffs. This effect might harm not only welfare of extra-regional countries but also the welfare of member countries. In short, elimination of regional trade barriers diverts imports from efficient (low cost) extra-regional producers to member countries.
- iii) Terms of trade effect. Establishment of common tariffs increases purchasing power of member countries of regional integration and pushes down import prices of similar products from extra-regional countries.
- iv) Market expansion effect. Elimination of regional trade barriers expands markets and enables cost reduction through scale merit.
- v) Competition promotion effect. Opening of regional markets increases competitive

pressures on domestic markets and improves productivity.

Among these five effects, i), ii), and iii) are related to resource allocation and can be called static effects while iv) and v) can be called dynamic effects.

In addition, regional integration has positive economic effects on member countries such as price decline and cost reduction through trade, which creates an economic incentive for participation. On the other hand, there may be negative effects on extra-regional countries such as trade reduction. That makes extra-regional countries more willing to participate and further accelerates regional integration. This is sometimes referred to as the domino theory of incentives for regional integration.^x Moreover, when participating countries achieve economic growth and increase the efficiency of their economic activities, it has positive secondary effects on extra-regional countries. The economic effect of regional integration is a combination of the five effects described above and cannot be precisely verified.^{xi}

Table 3 Effects of regional integration

Effects of regional economic integration		Details	Evaluation	
			Member country	Extra-regional country
Static effect	Trade creation effect	Regional trade barriers are eliminated and thus regional trade that has been conducted among member countries is expanded.	+	+ (Indirect)
	Trade diversion effect	Elimination of regional trade barriers diverts imports from efficient (low-cost) extra-regional producers to member countries	—	—
	Terms of trade effect	Establishment of common tariffs increases purchasing power of member countries of regional integration and pushes down prices of imported goods from extra-regional countries	+	—
Dynamic effect	Market expansion effect	Elimination of regional trade barriers expands markets and enables cost reduction through scale merit.	+	+ (Indirect)
	Competition promotion effect	Opening of regional markets increases competitive pressures on domestic markets and improves productivity.	+	+ (Indirect)

Source: The Ministry of Economy, Trade and Industry, “*White Paper on International Economy and Trade 2000*” p. 106

As the multilateral free trading system has made little progress, FTAs have emerged as a new trade promotion system to replace it.

Figure 2 Trade value of Japan, China, and Korea under FTAs

Japan	China	Korea
Partner countries /regions under FTAs in force Including countries/ regions that have broadly agreed Including countries/ regions under negotiations	Partner countries /regions under FTAs in force Including countries/ regions under negotiations	Partner countries /regions under FTAs in force Including countries/ regions under negotiations
FTA Partner Broadly agreed (Australia) Under negotiation (China) Under negotiation (USA) Under negotiation (EU) Under negotiation (Korea) Under negotiation Agreed to launch negotiations (Turkey) Other	FTA partner Signed but not in force Under negotiation (Japan) Under negotiation (Korea) Under negotiation Other (EU) Other (USA) Other	FTA partner (EU) FTA partner (USA) FTA partner Not in force (negotiations concluded) Under negotiation (China) Under negotiation (Japan) Under negotiation Other
Trade value \$ 1.5475 trillion (2013)	Trade value \$4.1600 trillion (2013)	Trade value \$1.752 trillion (2013)

Source: The Ministry of Economy, Trade and Industry, “*White Paper on International Economy and Trade 2014*” p. 269

3. The Japan-China-Korea FTA

There are a lot of researches on Japan, China and South Korea FTA. For instance, Urata Shujiro is strengthening economic cooperation into which the economic policy to Asia that Japan had to take integrated ASEAN and east Asia, and it proposed the materialization at the early stage of the FTA negotiation of three Japan, China and South Korea countries (2008). Tamamura simulates the economic effect of FTA according to the model including the non-tariff barrier in daytime (2007). Chung ingyoo investigated the research of Japan, China and South Korea FTA about the agriculture, forestry and fisheries industry, manufacturing, and the service industry. He did the comparison research on the trade, the investment structure, and the tariff at the same time (2004). These studies analyzed the economic effect Japan, China and South Korea.

My report is not only an economical effect of Japan, China and South Korea FTA, and analyzed from a political, social, cultural side. The reason is that it is thought that the economic integration of three countries contributes peacefully in the entire Asia.

Japan, China, and Korea hold significantly important positions not only in the Asian economy but also in the world economy. As for the size of economy, China, Japan, and Korea rank second, third, and thirteenth respectively in the world. The sum of GDP and trade values of these countries account for approx. 20% of world GDP and trade values. The

Japan-China-Korea FTA will not only promote trade and investment among them but also contribute to realization of the FTAAP (Free Trade Area of Asia-Pacific).

In addition, as China and Korea are Japan’s major trading partners (China: the largest partner accounting for approx. 21% of the total trade, Korea: the third largest partner accounting for approx. 6% of the total), it is necessary for Japan to sign an FTA with them in order to maintain and promote economic growth. The Japan-China-Korea FTA offers several benefits to Japan. Firstly, Japan, China, and Korea are aiming to sign a comprehensive, high-level FTA and it is expected that tariffs on Japan’s major exports will be reduced (The tariff rates on major products: China imposes a 25% tariff on passenger cars, 5-12% on liquid crystal devices, and 9.7 % on machine tools and Korea imposes an 8 % tariff on plate glass, 8% on gearboxes and parts thereof, and 5-6.5% on chemical products and preparations). Secondly, the Japan-China-Korea FTA will support activities of Japanese companies and contribute to establishment of rules within the Asia-Pacific region. Thirdly, it will contribute to realization of the FTAAP and promote a wide range of trilateral cooperation.

Therefore, if the three countries can establish an economic partnership, a large economic zone will be formed not only in East Asia, but also in the world economy. This not only will bring economic benefits but also may help resolve the issue of historical perceptions and territorial disputes that Japan, China, and Korea are concerned about. Thus, the Japan-China-Korea FTA will be a significantly important regional integration that may contribute to peace in Asia.

Figure 3 Trade structures of Japan, China and Korea

Japan-China trade structure	Japan-Korea trade structure
<u>China to Japan(2011)</u> Total imports from China Approx. 14.6419 trillion yen	<u>Korea to Japan (2011)</u> Total imports from Korea Approx. 3.1701 trillion yen
<u>Japan to China (2011)</u> Total exports to China Approx. 12.9022 trillion yen	<u>Japan to Korea (2011)</u> Total exports to Korea Approx. 5.2691 trillion yen
Source: GTA (2011), the right graph: Trade Statistics of Japan, the Ministry of Finance (2011)	Source: the left graph: GTA (2011), the right graph: Trade Statistics of Japan , the Ministry of Finance (2011)

Source: The Ministry of Foreign Affairs of Japan, 2012

The trilateral joint project on an FTA among China, Japan, and Korea was conducted by the Development Research Center of the State Council of the People’s Republic of China (DRC) of China, the National Institute for Research Advancement (NIRA) of Japan, and the Korea Institute for International Economic Policy (KIEP) of Korea from 2003 to 2009. At the Trilateral Summit Meeting in October 2009, Japan, China, and Korea reached a consensus on the launch of the industry-academia-government joint study. The joint study was concluded at the seventh joint study meeting held in Pyeongchang, Korea, in December 2011. At the Trilateral Summit Meeting held in Beijing, China in May 2012, they reached a consensus on the commencement of the FTA negotiations within the year. As a part of the preparation work

for launching the FTA negotiations, three working-level meetings were held from June to September 2012, where working-level consultations were concluded. At the ASEAN Summit held in Phnom Penh, Cambodia, in November 2012, the launch of the FTA negotiations among Japan, China, and Korea was announced.

There have been six rounds of negotiations so far (as of November 2014) and preparatory meetings and intercessional meetings have been held. Especially in the fourth round of negotiations held in Seoul, Korea in March 2014, the three countries launched negotiations in various areas based on the draft articles and discussed elements to incorporate in the agreement while engaging in active discussions on the guidelines for negotiations (modality) on goods market access and tariffs.^{xii}

In the Joint Study Report for an FTA among China, Japan, and Korea released on December 16, 2011, the following items are discussed.^{xiii}

1. Trade in goods (Agricultural, fishery and forestry products/ industrial products, rules of origin, customs procedures and trade facilitation, trade remedy)
2. Trade in services
3. Investment
4. Other issues (SPS (sanitary and phytosanitary measures), TBT (technical barriers to trade), intellectual property rights, transparency, competition policies, dispute settlement, industrial cooperation, consumer safety, e-commerce, energy and mining resources, fisheries, food, government procurement, and the environment)
5. General conclusions and recommendations
 - i) To aim at a comprehensive and high level FTA
 - ii) To be consistent with WTO rules
 - iii) To strive for balanced results
 - iv) To conduct negotiations in a constructive and positive manner, with due consideration to the sensitive sectors

Figure 4 History and details of Japan-China-Korea FTA negotiations

■ History and schedule of the Japan-China-Korea FTA negotiations	
2012	
November 20	At the Trilateral Economic and Trade Ministers' Meeting, the three countries agreed to launch the negotiations early in the following year
2013	
March 26-28	The first round of negotiations (Seoul)
July 30-August 2	The second round of negotiations (Shanghai)
November 26-29	The third round of negotiations (Tokyo)
2014	
March 4-7	The fourth round of negotiations (Seoul)
Summer	The fifth round of negotiations (China) (planned)
■ Areas being discussed in the FTA negotiations (15 areas)	

- ✓ Working group meetings should be held (The following areas should be officially discussed as the FTA negotiation areas):
Trade in goods, rules of origin, customs procedures, trade remedy, trade in services, investment, competition, intellectual property, SPS (sanitary and phytosanitary measures), TBT(technical barriers to trade), legal matters
- ✓ Expert meetings (The following areas should be discussed without prejudgment on how they will be treated in the FTA):
E-commerce, government procurement, environment, food

Source: The Ministry of Foreign Affairs of Japan, 2012

How do Japan, China, and Korea think about this FTA? Based on his experience of participating in the Joint Study for an FTA among China, Japan, and Korea, Abe (2012) states that China is rushing to sign an FTA with Japan and Korea because, in consideration of the rapid growth of its industries, it expects the FTA to serve as a long-term guarantee of securing future sales channels in East Asia. In addition, China has a rivalry against the United States in a political and diplomatic sense. On the other hand, what Korea wants from the Japan-China-Korea FTA is an “honorable position” as a hub for Japan and China. In addition, if the Japan-China-Korea FTA is realized, Korea will be the only one country that has FTAs with almost all economic powers in the world. In addition, the FTAs in East Asia are centered on Korea. Thus, Korea will be able to reap the maximum benefits from regional integration as a hub country through attraction of new companies and so on. In Japan, the business community requests for the early conclusion of the Japan-China-Korea Trilateral Investment Agreement and FTA. As for its relationship with China, there are still high tariffs imposed on electronic components and machines that are important for operations of Japanese companies in China and there is increasing demand from the business community for liberalization of investment and trade in services in expectation of future business expansion in China. There is also a request for protection of intellectual property rights and enhancement of transparency of the government procurement system. On the other hand, the sensitive sectors including agriculture are concerned about imports from China. Japan aims at liberalization and strengthening of areas of interest such as investment, trade in services, and protection of intellectual property rights while making an effort to protect the sensitive sectors as before.^{xiv}

This tells us that Japan, China, and Korea are promoting negotiations with different expectations (Korea: economy, China: its relationship with the United States, Japan: domestic situations). In addition, the three countries have sensitive issues that, if mishandled, may lead to criticisms of the governments such as the issue of historical perceptions and territorial disputes. For such reasons, the negotiations are actually making little progress.

In the meantime, China and Korea finally concluded the working-level negotiations on the China-Korea FTA on November 10, 2014, after 10 years of negotiations. They agreed to eliminate tariffs on more than 90% of trade items and more than 85% of trade volume. It is said that the agreement covers the economic and trade issues of the 21st century, such as e-commerce, competition policies, government procurement, and the environment, as well as 17 areas, including trade in goods, trade in services, investment, and rules. If the China-Korea FTA is concluded, it is expected that China’s and Korea’s GDP will increase by 1% to 2% and by 2% to 3% respectively. China and Korea have created new opportunities to form a joint

market with 1.35 billion consumers and \$11 trillion GDP (1,268 trillion yen).^{xv}

There are various speculations about the reason why the China-Korea FTA negotiations were concluded before the Japan-China-Korea FTA negotiations. Some think that Korea has changed its policies toward China^{xvi} while others consider that China has out-negotiated Korea^{xvii} or Korea aims to overcome its domestic economic downturn through exports to China^{xviii}. In any way, it is considered that the China-Korea FTA will be a great achievement for Korea.

On the other hand, Japan is in a complicated position. It is because Japanese liquid crystal panels will be disadvantaged in Chinese and Korean markets due to tariff reduction by the China-Korea FTA and it is estimated that exports from Japan will decrease by \$7.7 billion (approx. 924 billion yen) in 20 years. Specifically, Japan's exports to China and Korea will decrease by \$1.8 billion in the year following the implementation of the China-Korea FTA. Moreover, exports to Korea and China will decrease by \$0.9 billion and \$6.8 billion respectively in 20 years.

In addition, tariffs on display components, lithium ion batteries, and auto parts will be reduced after a certain grace period, which will put Japanese products at a disadvantage. Though short-term impacts on Japan will be small because the pace of liberalization is slow, the China-Korea FTA will have one of the biggest impacts on Japan among the economic partnerships between overseas countries in 20 years.

Korea plans to increase its exports by \$36.3 billion in 20 years. Because of the loss of market share to Korean products, the EU will experience the largest decline in exports at \$7.8 billion, followed by Japan and Taiwan (\$4.8 billion). The export value of the United States will decrease by \$2.6 billion.^{xix}

The impacts of the China-Korea FTA are not limited to those mentioned above. It may affect the TPP as it will stand in the way of the formation of an anti-China bloc that the United States is trying to promote through TPP negotiations. According to the early estimates, China's exports to Korea will decrease by \$3.8 billion 20 years after the implementation of the China-Korea FTA. The reason why China seeks to conclude the China-Korea FTA despite such a big decline in exports to Korea is said to be that it aims to win over Korea by strategically increasing Korea's investment in China in order to secure national interests. Moreover, it will be easier for China to take the lead in the Japan-China-Korea FTA negotiations by taking advantage of Japan's frustration of being left behind while China and Korea have concluded the China-Korea FTA negotiations.^{xx}

Thus, it can be said that the China-Korea FTA is more of a political FTA than an economic FTA. However, this applies not only to the China-Korea FTA. The U.S.-Korea FTA has a political aspect and Japan's Prime Minister Shinzo Abe said the TPP has a security aspect. The problem is that Japan will be left behind in the FTA negotiations where the participants have different interests and that will lead to a delay in not only economic growth but also stabilization of East Asia. Japan should step up its efforts to achieve the Japan-China-Korea FTA.

Conclusions

As described up to now, a past FTA research was a research that applied the focus in an economical effect. My research was researched based on past research accumulation including a political, social, cultural side. The research topic in the future is to make to politics of Japan, China and South Korea, society, and difference of the culture, and to examine how to overcome it.

In addition, the Japan-China-Korea FTA is expected to produce significant results economically and politically but there will be obstacles along the path to concluding it. To conclude, we discuss the feasibility of the Japan-China-Korea FTA by pointing out the challenges that Japan, China, and Korea need to overcome.

First, the biggest challenge the three countries must overcome is the issue of historical perceptions. It is an undeniable fact that Japan caused tremendous suffering and damage to Asian countries including Korea and China during World War II. Japan has been helping economic development of East Asian countries by extending ODA funds to them as compensation.

The reason why the issue of historical perceptions has not been resolved despite the efforts Japan has made is that Japanese politicians and some media repeatedly make statements that sound as if Japanese colonization never happened. The important thing is a future-oriented perspective in a true sense. To have such a perspective, it is important to for Japan to humbly accept and reflect on the truth about past and build a relationships of mutual cooperation for the future with China and Korea in order not to repeat the history.

The second challenge is territorial disputes. The three countries keep claiming legitimacy based on the past facts. An army has effective control over some territory in question and intentional intrusions into territorial waters have been repeated. Deserted islands in question have great significance not only because exclusive economic zones can be set based on them but also because there are rich fishing grounds and seabed resources around them. In order to resolve these problems, it is important for interested countries to jointly manage the lands in question and continue persistent negotiations. The situation has come to the point where claims of only one of the interested countries cannot be accepted.

The third challenge is consideration for other countries, especially the United States. As the Japan-China-Korea FTA has an exclusive attitude to extra-regional countries, the movements of the United States are a politically important factor. The United States admits that the Japan-China-Korea FTA is beneficial for the economic growth of the three countries and will indirectly be to its benefit while feeling wary of it because it needs to control the rise of East Asia as a growing area and secure its own interests. Therefore, the three countries should build a framework that makes the United States feel safe rather than wary and creates trust rather than distrust by maintaining that the Japan-China-Korea FTA is intended to promote exchanges with extra-regional countries and open regionalism rather than exclude them.

The fourth challenge is handling of sensitive problems that Japan and Korea have including those related to agriculture. In Japan, the international competitiveness of agriculture is generally weak due to 1) small-scale farm management as a result of industrialization and urbanization, 2) the aging of farmers, and 3) low productivity protected

by regulations. For this reason, and to maintain its food self-sufficiency, Japan has been protecting its agriculture by providing subsidies by product and imposing high tariffs on imported agricultural products.

Korea's agriculture is in a similar situation. As 60% of the national land of Korea is covered with mountains, there is a limited amount of usable agricultural lands. Korea placed priority on industrial expansion after World War II, which delayed agricultural development. The progress of industrialization and the migration of many rural inhabitants to cities after the 1970s especially caused a labor shortage in agriculture. Korea suffers from the shortage and aging of agricultural workers like Japan. That means both Japan and Korea want to sign an FTA without causing further damage to agriculture. This is also a major obstacle to the Japan-China-Korea FTA negotiations.

The fifth challenge is the issue of infrastructures needed to conduct fair business. While Japan and Korea, as OECD member countries, aim at achieving a wide-ranging economic partnership, including liberalization of high-level investment, protection of intellectual property rights, open government procurement, and safety improvement, China is not ready or prepared for it. China has accelerated its efforts toward a market economy since the launch of the reform and opening-up policy in 1978 and achieved its goals in terms of scale. However, there are problems in China's financial system such as incomplete market opening and commercial legislation that is not suitable for a market economy. Since it will take long for China to develop infrastructures, this issue is difficult to address.^{xxi}

The sixth challenge is deciding for which items tariffs should be eliminated. This is a major challenge in substantial negotiations. Though Japan wants to set a uniform rate of tariff elimination for all items from the standpoint of protection of agricultural products, China does not give ground on this and argues that they should set separate target values for industrial products and agricultural products. Japan Customs has a tariff schedule that covers 9,018 tariff items, of which 2,419 items are agricultural products. If tariff rates are calculated based on Japan's proposal to eliminate tariffs on 90% of items, liberalization will be promoted although more than 900 agricultural products will be set as bonded items. On the other hand, if tariffs on 80% of agricultural products are eliminated according to China's proposal, Japan can protect only a little more than 480 agricultural products.

The seventh challenge is how much the three countries can respect one another's sensitive sectors. Japan's sensitive sectors include agriculture, iron making, and energy. Korea's sensitive sectors are agriculture, energy, and processing industries such as clothing and spinning and China's sensitive sectors are chemical industry, automobile, and service industry. Treatment of the sensitive sectors and goods of the partner countries is a technically challenging issue.^{xxii}

As mentioned above, Japan, China, and Korea still have many economic and political issues to resolve. Nevertheless, it is extremely important to conclude the Japan-China-Korea FTA for the growth and stability of East Asia. Now is the time for the three countries to concentrate all the wisdom and overcome many challenges.

Notes

- ⁱ WTO HP, http://www.wto.org/english/tratop_e/region_e/region_e.htm
- ⁱⁱ UNCTAD, "WORLD INVESTMENT REPORT : Investing in the SDGs: An action Plan 2014.", http://unctad.org/en/PublicationsLibrary/wir2014_overview_en.pdf
- ⁱⁱⁱ Korea calls the economic scale expanded by conclusion of an FTA economic territory.
- ^{iv} The Ministry of Economy, Trade and Industry "White Paper on International Economy and Trade 2001" pp. 165-166. Baldwin also discusses the domino theory in detail in his paper. Richard E. Baldwin, "A domino theory of regionalism", in Richard E. Baldwin, Pertti Haaparanta and Jaakko Kiander, eds, *Expanding membership of the European Union*. New York, Cambridge University. pp. 25-53.
- ^v The decision by signatories (Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries) in 1979 exempts regional trade agreements entered into among developing countries for the mutual reduction or elimination of tariff and non-tariff barriers from Article I of the GATT (most-favoured nation treatment) if they meet certain requirements.
- ^{vi} "Korea's FTA Strategy under Globalization" by the author, the Aichi University Institute of International Affairs "Journal of International Affairs" vol. 125, March 2005.
- ^{vii} Bela Balassa, *The Theory of Economic Integration*. Routledge, 2011. Bela Balassa, *The Theory of Economic Integration*. (Masanobu Nakajima trans.), Diamond-sha, 1963.
- ^{viii} The Ministry of Economy, Trade and Industry "White Paper on International Economy and Trade 2000" p. 104
- ^{ix} Ibid.
- ^x It is said that this domino theory is a key factor behind Korea's rush to sign FTAs after 2004.
- ^{xi} The Ministry of Economy, "White Paper on International Economy and Trade 2000," "White Paper on International Economy and Trade 2001"
- ^{xii} The Ministry of Economy, Trade and Industry, "White Paper on International Economy and Trade 2014" p. 273-274
- ^{xiii} For the Joint Study for an FTA among China, Japan, and Korea, seven meetings were held between May 2010 and December 2011, attended by government officials and business and academic participants from the three countries.
- ^{xiv} Kazutomo Abe "Japan, China and South Korea FTA : The significance and problem", The Hitachi Souken Journal, vol. 6-4, February 2012
- ^{xv} People's Daily Online (Japanese), November 12, 2014
- ^{xvi} Takeshi Ando, "China-Korea FTA: Impact of "Japan exclusion"", Nikkei Business, issue of May 14, 2012
- ^{xvii} Takabumi Suzuoki, "The discrepancy of the U.S. South Korea alliance is exposed because of the South Korea rice inside confrontation that sidles up to China.", Nikkei Business, January 12, 2012
- ^{xviii} The JoongAng Ilbo, January 30, 2015
- ^{xix} "As for the export of Japan, 900 billion yen down is small: Influence of China and South Korea FTA", the Diamond Weekly, issue of December 17, 2014
- ^{xx} Ibid.
- ^{xxi} Shi Jinfang and Hideya Kubo "Realizability of Japan, China and South Korea FTA seen from trade structure", Discussion Paper No. J-37, the Center of Risk Research, the Shiga University
- ^{xxii} "China, Japan and South Korea FTA: the 4th meeting tariff abolition article is a focus", People's Daily Online, March 5, 2014

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