Trade in Services of China, Japan and Korea: The Way Forward

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For a long time, manufacturing and international trade have been the main contributors to economic growth for the three countries of Northeast Asia. However, contrary to their trade surplus in goods, they are all countries who face trade deficit in services. Also, despite its importance in the economy, the services trade of the three Northeast Asia countries seems to contribute less to their economy compared to other developed countries; while services exports account for 29.1% of total exports on average for OECD members in 2016, they only account for 7.8%, 21.5%, 15.3% of total exports for China, Japan and Korea, respectively.

Given the prevalence of global value chains, the services sector plays an increasingly important role in international trade. For instance, transport, logistics, and information and communication technology services allow countries to be efficiently linked to each other. Thus, the governments of the three countries are pursuing policies to promote trade in services, enhancing the efficiency and productivity of the service sector itself.

There are several ways to facilitate trade in services between the three countries. Korea and China agreed on further FTA negotiations to liberalize service and investment this year. In addition to such bilateral FTAs, China, Japan and Korea could also cooperate to lead early conclusion of the RCEP, not to mention make progress on the trilateral FTA negotiations between China, Japan and Korea that includes provisions of services trade liberalization.

Some unnecessary impediments of services trade must be considered very carefully to be removed. For instance, current Korean law requires applicants to earn 24 credits in accounting courses to take the Korean CPA examination, while credits earned from a foreign university are not recognized. Although anyone regardless of nationality, age or educational background is qualified to take the Korean CPA exam, the credits requirement can be a major restriction to movement of people in the accounting service sector. For China, restrictions on cross-border mergers and acquisitions (M&A), conditions on subsequent transfer of capital and investment are regulations pointed out to have negative impacts on trade in multiple services sectors. In the case of Japan, foreign entry restrictions are relatively liberalized while its measures seem to be more subtle in exploiting barriers to competition. For instance, in the courier service sector, it appears that the designated postal operator, Japan Post Co., Ltd., receives preferential treatment during customs clearance. There is no such preferential treatment for the designated postal operators of Korea or China.

While it is clear that some regulations must be removed, many regulations have their own legitimate objectives. Only limited foreign entry is allowed in broadcasting services even in many developed countries to ensure cultural variety, while air and maritime transport are not opened to foreign investment for national security reasons. Thus, it is clear that there are cost and benefits of lifting barriers in services trade. Like non-tariff measures, this is why establishing a cooperation mechanism to streamline the regulations across countries is important. Despite the fact that China, Japan and Korea are countries that are geographically close to each other with a high level of economic inter-dependence, there is no mechanism to discuss ways to harmonize regulations across the region. The three countries may utilize the existing Pan-Yellow Sea Rim Economy and Technology Exchange Meeting as a government-industry-academia cooperation dialogue channel. Although it is a sub-regional mechanism, this setting has its own merit as it facilitates attempts to experiment with policies as is done in special economic zones. KIEP