

A Proposal to Lower Non-Tariff Barriers between China-Japan-Korea

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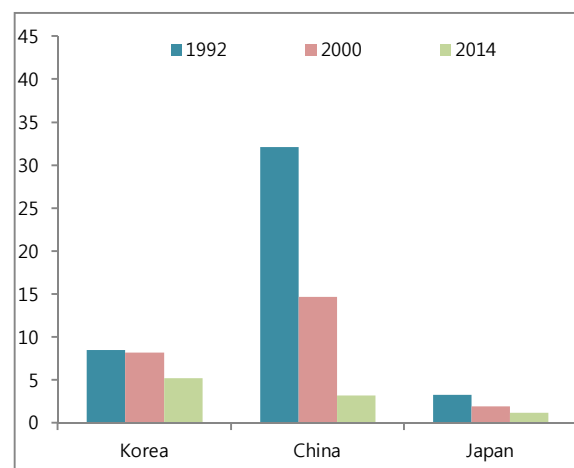
1. Background

Non-tariff measures are defined as “policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities trade, or prices or both (UNCTAD 2012, p.1).” Many non-tariff measures are inevitable, with legitimate purposes such as protecting the health and safety of consumers and pursuing public welfare goals. Some non-tariff measures, however, create unnecessary obstacles towards trade; as a subset of non-tariff measures, the unnecessary barriers to trade are distinguished as non-tariff barriers and should be considered for eventual elimination.

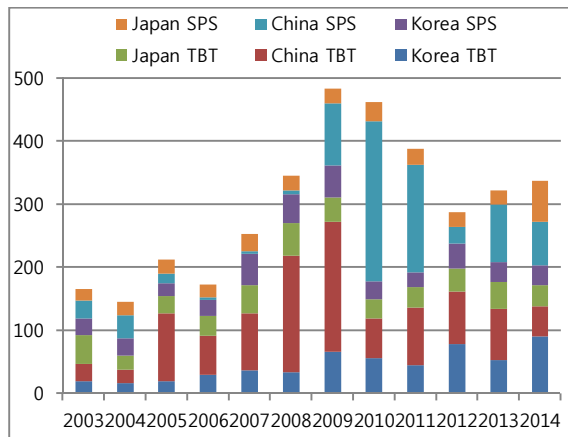
Under the GATT and WTO regimes, the level of tariff rates has gradually declined while non-tariff measures have become more prevalent worldwide. (See Figure 1. and Figure 2.) Among many types of non-tariff measures, the number of TBT and SPS measures implemented increased substantially during the global financial crisis, implying that countries

around the world are employing more subtle measures to protect their domestic economy. As noted, many non-tariff measures have legitimate goals, but the difference of such measures between countries may incur additional costs to firms involved in international trade. Thus harmonizing TBT/SPS related regulations between countries is important in eliminating the unnecessary barriers to trade.

Figure 1. Tariff (Weighted Average)



Data: TRAINS DB. (accessed on 2015. 10. 22)

Figure 2. Numbers of TBT and SPS Measures

Data: WTO I-TIP DB. (accessed on (2015. 10. 26))

Harmonizing national policies related to TBT and SPS measures is especially essential for countries involved in cross-border production. This is because trade costs are compounded as production cross borders multiple times. Korea, China and Japan recorded an increasing trend of foreign value added in trade in goods while domestic value added decreased during the period between 1995 and 2011. This implies the three countries' active participation in the global value chain. The established regional network of the three countries calls for the need to build a regulatory cooperative system to identify unnecessary non-tariff measures that become non-tariff barriers and find ways to alleviate them.

2. The Effects of Non-tariff Measure to Trade between China-Japan-Korea: A Quantitative Analysis

Theoretically, non-tariff measures may have both positive and negative effects on trade. On the one side, non-tariff measures can facilitate trade by providing information on imported

goods to consumers under asymmetric information. For instance, suppose that product quality varies substantially while the quality is not readily observable to consumers. If the importing country's government requires foreign exporters to comply with quality assurance programs, consumers may gain confidence in the quality of the imported product and more consumers may decide to purchase imported products. On the other hand, such non-tariff measures result in higher compliance costs for firms, thereby increasing the import price and restricting the quantity of imports. The net effect of the regulatory measures thus depends on the relative size of the two opposing effects.

Non-tariff measures not only affect the volume of trade, but domestic welfare is also and often affected when importation of certain goods generates externalities. For example, importing low quality steel beams may increase the risk of collapse for bridges or buildings. Hence it is essential for the government to carefully evaluate the impact of non-tariff measures on both trade flows and welfare.

Using the coverage ratio and frequency index of TBT and SPS, we conducted an empirical research to examine the impact of SPS and TBT measures on trade among Korea, China and Japan. The results show that TBT measures adopted by the three countries negatively affected manufacturing trade and SPS measures negatively affected food and agricultural trade. Narrowing the analysis scope to intra-regional trade, only the SPS measures had negative effects on the food and agriculture trade between countries, while the effect of TBT measures on trade turned out to be statistically insignificant. This is possibly due to much of the trade between China, Korea and Japan being of intermediate manufacturing goods, trading of which are less likely to

be affected by TBT measures than final goods trade.

3. Current Status of Non-tariff Measure in China-Japan-Korea: A Quantitative Analysis

Korea, China, and Japan are all among the top 10 countries for being most active in submitting regular and emergency notifications to the related WTO Committees on the changes and newly introduced TBT and SPS measures. Looking into the recent specific trade concerns that had been brought to the Committee by the WTO member states regarding the TBT measures, China is second most in terms of concerns raised by other WTO member states. One of the frequently raised concerns were the excessive time and cost needed to comply with the Chinese conformity assessment. In case of Korea, concerns towards Korea's implementation of the Act on the Registration and Evaluation, etc. of Chemical Substances in 2014 were raised by Japan and other member countries.

As for SPS measures, in 2013, Japan has raised concerns in connection with China and Korea's import restrictions on Japanese fishery products with respect to radionuclides. The case between Japan and Korea failed to reach a consensus, and Japan filed a dispute against Korea for WTO dispute settlement in 2015. A panel was composed on February 2016, and the case is still ongoing.

All three countries are active in pursuing FTA/EPAs with other countries and region. Since each concluded FTA/EPAs which include a separate chapter or provisions on TBT and SPS measures, comparing the provisions may provide glimpses of governments' per-

spectives on SPS and TBT policy as well as possible areas for cooperation. In case of the TBT provisions, China seems to have more or less conservative tendency towards international standards and transparency. With respect to the provisions of conformity assessment procedures within the TBT agreement, both China and Japan have stricter criteria than Korea in terms of acceptance of mutual recognition of results and procedure of conformity assessment.

In case of SPS provisions, Korea and Japan seemed to take a more conservative approach towards provisions beyond the WTO SPS agreement whereas China agreed to include more detailed and concrete provisions on transparency. In addition, all three countries were active in seeking multilateral and bilateral food safety cooperation scheme in addition to FTA provisions which indicates each country's policy priority on resolving food safety issues while facilitating trade.

4. Policy Implications

Based on the increasing level of trade restrictiveness from the regulatory barriers by all three countries, there is a growing need to develop a regular cooperative mechanism to identify inefficient regulatory barriers, evaluate its impact on trade flow, and on welfare. The ultimate goal of the cooperative mechanism of the three countries is to discuss ways to harmonize the different regulatory measures. In this report, we suggest the three countries utilize the existing Pan-Yellow Sea Rim Economy and Technology Exchange Meeting. Within this dialogue channel for government-industry-academia cooperation, harmonization of standards, mutual recognition of conformity assessment, and enhancement of transparency

can be discussed to lower the regulatory barriers relevant to SPS and TBT measures.

First, the three countries can begin by fostering mutual understanding on different domestic standards as a first step towards harmonizing standards. Establishing a network composed of experts from government, academia and relevant industries such as the Korean-Sino food standards meeting may foster this process. The ASEAN food safety standards harmonization workshop and the ASEAN food safety standards database can be a benchmark to enhance understanding on different standards of the three countries. It should be emphasized that harmonization of standards should be dealt with from a long-term perspective because the results may be extremely difficult to be reversed.

Secondly, mutual recognition of conformity assessment can be pursued by (a) introducing and expanding the SDoC (Suppliers Declaration of Conformity) product list, (b) delegating authority to the assessment bodies located in the partner country (c) establishing and managing a foreign-owned certification authority in the domestic country and (d) developing and further extending mutual recognition arrangements (MRA) for test certification results. Furthermore, the effectiveness of the MOU and MRA signed by the relevant representative authorities of the three countries can be strengthened by regular revision.

Thirdly, transparency can be improved by creating a common website on SPS and TBT measures of the three countries which provides stakeholders better access to changes and newly introduced domestic measures, as well as facilitating sharing of information and experience related to repetitive denials in customs cases. [KIEP](#)