9-1-2013

Principles of Asian Contract Law: An Endeavor of Regional Harmonization of Contract Law in East Asia

Shiyuan Han

Follow this and additional works at: http://digitalcommons.law.villanova.edu/vlr

Part of the Contracts Commons, and the International Law Commons

Recommended Citation
Shiyuan Han, Principles of Asian Contract Law: An Endeavor of Regional Harmonization of Contract Law in East Asia, 58 Vill. L. Rev. 589 (2013).
Available at: http://digitalcommons.law.villanova.edu/vlr/vol58/iss4/7

This Note is brought to you for free and open access by Villanova University Charles Widger School of Law Digital Repository. It has been accepted for inclusion in Villanova Law Review by an authorized editor of Villanova University Charles Widger School of Law Digital Repository. For more information, please contact Benjamin.Carlson@law.villanova.edu.
PRINCIPLES OF ASIAN CONTRACT LAW: AN ENDEAVOR OF REGIONAL HARMONIZATION OF CONTRACT LAW IN EAST ASIA

SHIYUAN HAN*

I. INTRODUCTION

FOLLOWING the development of the globalized economy, it was inevitable that relevant private law rules would be harmonized and unified. This kind of harmonization and unification is both a global and a regional endeavor. In Asia (especially in East Asia) there is a private initiative by scholars trying to harmonize rules of contract law, and the aim is to create a model law called Principles of Asian Contract Law (PACL).

This paper begins, in Part II, with a discussion of how the PACL can become a continuous project rather than merely an idea. Part III then examines why the PACL is necessary for East Asia given that China, South Korea, and Japan are member states of the United Nations Convention on Contracts for the International Sale of Goods (CISG). Part IV examines what has been done to create the PACL. Part V addresses some basic issues with the PACL. Finally, Part VI discusses the future of the PACL.

II. THE FIRST STEP TOWARD CREATING A PACL

In East Asia, many scholars are conscious of the need for regional harmonization of private law. For example, Japanese professor Zentaro Kitagawa described an idea for a model contract law in the mid-1980s. In 2004, at an international symposium in Qingdao, China, Professor Eichi Hoshino, Professor Young Jun Lee, Professor Sang Yong Kim, *

* Professor of Law, Tsinghua University School of Law, Beijing. The author may be contacted at lawhsy@mail.tsinghua.edu.cn.


(589)
and I spoke about the harmonization of civil law in East Asia. My suggestion during the symposium was to borrow the experience of the Principles of European Contract Law (PECL) Commission and to start a cooperative drafting effort of comparative study and model law between Chinese, Japanese, and Korean scholars. Specifically, I suggested that a “path to the harmonization of contract law or private law may be to start from scholars, from non-government initiatives and from model law.” However, the idea has not initiated any action in the following several years.

In October 2009, I organized an international symposium named “Unification of Private Law in Europe and its Impact in East Asia” at Tsinghua University School of Law. The main purpose of the symposium was to improve the harmonization of private law in East Asia. The symposium not only invited European scholars to report on the work of unification of contract law and tort law in Europe, but also invited several Asian scholars, including Professor Wang Zejian (Taiwan), Young Jun Lee (South Korea), Sang Yong Kim (South Korea), Naoki Kanayama (Japan), Naoko Kano (Japan), Kunihiro Nakata (Japan), Lei Chen (Hong Kong), and a number of Chinese scholars from Beijing.

Just after the symposium, Professor Wang Zejian, Young Jun Lee, Naoki Kanayama, Naoko Kano, and I gathered in my research room in Tsinghua University School of Law. After discussing the possibility of a PACL co-operate project, we reached a common view, which I call the Beijing Agreement. According to the Agreement, Wang, Lee, Kanayama, and Han each will establish a research team and organize future PACL


6. Id.


10. Naoki Kanayama [金山直樹], [Challenge to PACL].

11. Naoko Kano [鹿野菜穂子], [Recent Development of Japanese Consumer Law & Policy].

forums. This was the start of the international/regional co-operation on PACL in East Asia.\footnote{See Naoki Kanayama, \textit{PACL [On the Meaning and Questions of a PACL]} [in Japanese], 1406 \textit{JURIST} 102, 105 (2010).}

The formation of the PACL project was based on an agreement among scholars from three East Asian countries. The three countries have their own unique history of private law. It is difficult to say which country’s law is better; however, if the law is appropriate for the conditions of a country, then it is a good law. The aim of the PACL is to create a set of rules and principles appropriate for Asian countries.

\section*{III. Why have the PACL?}

If China, the world’s second largest economy, Japan, the world’s third largest economy, and South Korea will cooperate, it will absolutely attract the world’s attention. We have to admit, however, that the situation in East Asia is very complicated, considering the history, the public sentiment, and the international relations among the countries. We also cannot ignore the important role of economic and commercial exchange among the countries. For the past several years, relations among the three countries can be accurately described as politically cold, but economically warm.

The significant volume of transactions among the three countries calls for common rules. After China joined the CISG as one of the original member states, South Korea and Japan became member states of the CISG in the years 2004 and 2008, respectively. Since the CISG is now a common rule of the three countries, is it still necessary to have the PACL? This is a very natural question; however, the following points illustrate the necessity of the PACL. First, the CISG covers only sales contracts. For other kinds of contracts, it is still necessary to have the PACL as a set of common general rules. Second, even with sales contracts, the CISG does not cover every aspect of a contract. For example, validity and transfer of ownership have not been regulated by the CISG. Third, the CISG is more than thirty years old. In the past thirty years, the world has changed significantly. New challenges call for new rules. Fourth, the CISG was designed by European and American scholars and specialists. It reflects mainly the experiences of the western world. For East Asian people, it is still necessary for Asian scholars to produce an Asian voice.

Furthermore, the PACL differs in some ways from the CISG. The differences may be analyzed from two perspectives: form and content.

First, it is clear that the PACL has some differences in form when compared with the CISG. The PACL is not a convention. It does not have any binding force of law. It regulates the general part of contract law, including the validity of contract. Therefore, the PACL may be a good supplement to the CISG in practice.
Second, the differences in content between the PACL and the CISG, if any, should be analyzed carefully. Such analysis would be good both for the PACL and the CISG. When writing the PACL, the drafter must provide reasons that support the drafter’s position. Moreover, the drafting of the PACL may provide an opportune time to re-evaluate the content of the CISG. For example, if the PACL’s position is consistent with the custom of Asia and different from the position of the CISG, we should re-think whether the CISG sufficiently addresses Asian customs.

IV. WHAT HAS BEEN DONE ABOUT THE PACL?

Several meetings have been held regarding the PACL, including: March 7–8, 2010, Keio University, Tokyo, the First PACL Forum, General Principles and Interpretation of Contracts; August 25–26, 2010, Ho Chi Minh University, Vietnam, the Second PACL Forum, Formation of Contract; December 14–15, 2010, Seoul University, South Korea, the Third PACL Forum, Non-performance; May 21–22, 2011, Osaka, the Fourth PACL Forum, Validity of Contract; September 17–18, 2011, Tsinghua University, Beijing, the Fifth PACL Forum, Performance; December 17–18, 2011, Seoul University, South Korea, the Sixth PACL Forum, Non-performance; March 4–6, 2012, Keio University, Tokyo, the Seventh PACL Forum, General Matters, Performance and Non-performance; December 14–15, 2012, Seoul University, South Korea, the Eighth PACL Forum, Performance and Non-performance.

V. SOME BASIC ISSUES ABOUT THE PACL

A. The Nature of the PACL

1. Nongovernmental and Private Initiative

The PACL project has not been supported or authorized by any government. It is a purely private initiative that is independent of politics. In principle, the participants have not obtained any financial gain from their involvement in the project. They took part in the meetings at their own expense; however, this does not mean that the national/regional teams could not find financial support for their involvement. For example, Professor Kanayama obtained financial support from the Fondation pour le droit continental and the Ministry of Education, Culture, Sports, Science and Technology of Japan. Professor Lee obtained financial support from the Humboldt Foundation. I obtained financial support from Tsinghua University. Thus, the specific participant or national/regional team receives the financial support, not the PACL project as a whole. The PACL, as a common research result, collectively belongs to all participants in the project,14 and not solely to one person or one national/regional team.

14. This point was discussed and affirmed during the 2012 Tokyo PACL Forum.
2. **Academic Product**

The PACL is a product of academic exchange and co-operation. The participants of the PACL are mainly professors and, to a lesser extent, lawyers from different Asian countries or regions. They come together sharing a common academic ideal: the pursuit of academic democracy and freedom. They have different academic backgrounds, but they are not spokespeople for any specific legal family, either their own or that of any western legal family.

### B. The Aimed Position of the PACL

Since the PACL is a nongovernmental private initiative and an academic product, it does not have any “binding force of law.” It is only a “model law” or “soft law.” So the force of the PACL, if there is any, is not from *ratione imperii*, but from *imperio rationis*. In Asia there is no organization like the European Commission or European Union. People cannot pin their hopes on any external authority. If the PACL can play a role in practice, it can rely only on its own force of persuasion.

Professor Michael Joachim Bonell has analyzed the UNIDROIT Principles in practice as: (1) Reception in academic and professional circles; (2) Model for national and international legislation; (3) Guide in contract negotiations; (4) Law chosen by the parties to govern their contract; (5) Rules of law referred to in judicial proceedings. The success of UNIDROIT’s Principles of International Commercial Contracts (PICC) in practice has gone beyond all expectations.

As to the PACL, of course people may optimistically expect it has a similar function in practice. However, such optimistic possibilities and ambitious ideals depend on the crux of the matter—the quality of the final result. In other words, the PACL as a model law should not be a simple copy of the PICC or the PECL.

### C. Work Methods of the PACL

1. **Sketch of Work Methods of the PACL**

The current structure of the PACL project includes three chairmen, several national/regional teams, and a voting system. English has been

---

15. See Kanayama, *supra* note 13, at 103.

16. Professor Reinhard Zimmermann has pointed out that the DCFR is intended to be a reference text which, unlike the PECL, is to secure its authority not from *imperio rationis* but *ratione imperii*, i.e., by virtue of the European Community endorsing or adopting it in one form or another. See Reinhard Zimmermann, *The Present State of European Private Law*, 57 Am. J. Comp. L. 479, 491 (2009).

the working language of the project from the very beginning. The three current chairmen are Shiyuan Han (China), Naoki Kanayama (Japan) and Young Jun Lee (South Korea). National/regional teams include Cambodia, China, Hong Kong, Taiwan, Indonesia, Japan, Myanmar, Nepal, Singapore, South Korea, Thailand, and Vietnam. The PACL forums utilize a voting system to resolve differences of opinion. The above methods have been used successfully for three years, producing several positive results. Nevertheless, the methods also have several problems.

2. **Efforts to Improve the Work Methods of the PACL**

After an investigation of the methods of the PECL Commission, I made a proposal to the participants of the 2012 Tokyo Forum regarding possible improvements to the methods of the PACL. The central ideas of the proposal include the following points.

a. **Using Reporters Instead of National/Regional Teams**

The PACL project needs reporters instead of national teams. The reporters would play several important roles. For example, the reporters would be in charge of drafting the articles, comments, and notes. If a task were given to a specific person, such as the reporter, rather than a national team, it would be much clearer what the individual should do. The participants in the PACL project are not really representatives of their own nations. National teams are also suboptimal due to sensitive historical issues in East Asia. The final result of the project should not be a result of “political quarrels” between Asian nations. It is *imperio rationis* which will give the PACL strength. The PACL project should follow rationalism rather than nationalism.

A reporter should be a specialist in contract and comparative law—a professor proficient in English and able to participate in the PACL Forum frequently. The reporter should be nominated by the PACL project (or the commission).

b. **Setting up a Drafting Group**

The drafting group is composed by the reporters. The drafting group may hold small meetings (compared to the forum’s larger meeting) if it is necessary. If the small meetings are separate from the larger one, it will be much more efficient for the project, at least from the perspectives of time and money. It is not necessary to hold the forum three times a year. However, in terms of similarities, both the small meetings and the larger meeting may adopt a “voting system.”

---

18. See *Comm’n on European Contract Law, Principles of European Contract Law* *Parts I & II* xi–xvi (Ole Lando & Hugh Beale eds., 2000).
3. Setting up an Editing Group

Native English speakers should be in charge of the editing group.

3. Final Thoughts Regarding the PACL’s Methods

The above proposal has been discussed at the forum, and many of the ideas have been adopted. The “national reporter” has been re-labeled the “jurisdictional reporter” so as to take into account the status of Hong Kong, Taiwan, and Macau. The “nominated reporter” has been instituted to review the current drafts. Nominated reporters are to work closely with the original drafters. Any disagreements between a nominated reporter and an original drafter should be set out in writing and considered by the drafting committee. Nominated reporters are not bound by the current draft articles because nominated reporters should take into account the jurisdictional reporters, as well as generally consider coherence and the level of detail across the five chapters of the PACL.

Without the original drafters’ transcending the limitations of nationalism and following rationalism, it is impossible to introduce a nominated reporter system. Currently, the South Korean team’s original draft is reviewed by a nominated reporter from Taiwan. Moreover, China’s team’s original draft is reviewed by a nominated reporter from Singapore. Through such collaboration, the quality of the drafts will improve.

D. Strategies of the PACL

1. A Quick Draft?

Compared to the PECL, the pace of work of the PACL is very quick. In the past three years there have been eight PACL forums. Five chapters of the PACL have been drafted. However, my hope is actually to slow down the work, because most of the participants in the project are part-time contributors. With limited time and energy, it is difficult for them to maintain that pace while still preserving quality.

Before the Seoul Forum of December 2010, I raised this issue with Professors Kanayama and Lee.19 By the end of the forum, when the three of us gathered to discuss the future agenda, both of them expressed a desire for a “quick” draft. Professor Lee mentioned that, as a man in his seventies, he wished to see the PACL finished as soon as possible. As a substantive matter, I do not know why Professor Kanayama supported that approach. One possibility is that he needed to demonstrate progress to his financial supporters in order to maintain funding.

19. The first meeting of the First Commission of the PECL was in December 1980. The main result of the First Commission was sections regarding performance, non-performance, and remedies, which were published in the year 1995. The PECL Commission spent more than ten years on performance and non-performance; compared with the PECL, the speed of the PACL was astonishing.
I respect their concerns, but I support a more measured approach. There is an old Chinese saying, "slow work brings fine result" (literally, the saying is “Man gong chu xi huo”—soft fire makes sweet malt). Being anxious to achieve rapid success may bring bad results. Until now the project has resulted in five chapters, but they are only a rough draft. In order to ensure quality and persuasiveness, we will need to carefully review these drafts in the future.

2. Brief Principles or Detailed Rules?

Different drafters from different countries prepared the five chapters of the PACL. Generally speaking, the drafts by the Japanese drafting team (including a section regarding the interpretation, formation, and validity of contracts) are comparatively simple, while the drafts by the South Korean team (non-performance) and the Chinese team (performance) are much more detailed.

If the PACL, as a model law, is too simple, what is its value to judges or legislatures? How attractive will the PACL be to the parties of a contract? Although they are called “principles,” actually the PECL’s provisions are more similar to general rules. And the PICC may constitute the same character, insofar as it is not limited to “principles.” According to Article I of the PACL, “[t]hese Principles are intended to be applied as general rules of contract law in the Asian Countries.” The reality should correspond to its name.

3. Restatement or Innovation?

The concept of a restatement of law is a product of American law. For a civilian, the “restatement” is no more than a systematic tidying-up of the existing legal rules and principles. Restatements generally do not contain “new” proposals. If we inspect the PECL as an example, on one hand, it may say that it is a kind of “restatement” of European contract law. From the format of the PECL—article, comment, illustration, and note—it is clear that the American Restatement of Law has its impact on the PECL. On the other hand, the PECL is not merely a “restatement” of law—it contains some new proposals. Thus, the PECL’s success should

20. For example, the current draft of “Formation of Contract” by the Japanese team contains only nine articles, while its counterpart, the Contract Law of China contains thirty-five articles. The provisions of the PACL here are much simpler compared with the Chinese Contract Law; thus, it will not be attractive to Chinese legislature, judges, or contractual parties. I recommend that this part of the PACL be re-drafted.

21. See PRINCIPLES OF EUROPEAN CONTRACT LAW art. 1:101 (1994) (“These Principles are intended to be applied as general rules of contract law in the European Union.”).


23. While comparing the PECL and the American Restatements, Professor Zimmermann has pointed out that "[t]he American Restatements, obviously, pro-
2013] PRINCIPLES OF ASIAN CONTRACT LAW 597

not be separated from a path the PECL followed—namely by utilizing the restatement as the basis for the PECL and then going beyond such a restatement.

Turning to the existing results of the PACL project, many observers might consider the PACL insufficient in restating existing Asian law. Such a restatement of Asian law would need to be based on a comparative study of the existing Asian laws in an attempt to find their common core. Without an adequate comparative study, the PACL will lack a strong foundation.24

Why should the PACL project try to find and restate the common core of existing Asian law? One reason may be that, in doing so, the PACL can become a modern lex mercatoria or Asian ius commune. Generally speaking, merchants are familiar with their domestic laws. The closer the rules of the PACL are to the merchants’ domestic rules, the more likely it is that the merchants will accept it. Another reason may be that comparative studies will make the final results of the PACL project unique and attractive. For example, the national reports, prepared by Asian scholars, will serve as rare academic resources.

One additional point must be made. By emphasizing the restatement of Asian laws, the author does not indicate that he objects to innovation. The participants of the PACL project should uphold the ideal of a restatement and, at the same time, respect the practical reality. Here, to “uphold the ideal of a restatement” means to draft a set of rules and principles appropriate for Asian people. “Respecting the practical reality” means building the ideal of a PACL on the basis of the reality of Asian laws. An ideal PACL can only be obtained by utilizing the restatement as the basis for the PACL and then going beyond that base.

E. Any Distinguishing Asian Feature of the PACL?

Since the CISG, the PECL, the PICC, and the Draft Common Frame of Reference (DCFR) already exist, the PACL, as a latecomer, should have a distinguishing feature to demonstrate its necessity. Is there any distinguishing Asian feature in the PACL? This question is in heated dispute.

vided a source of inspiration for the draftsmen of the PECL.” Zimmermann, supra note 16, at 512 n.24. Compared to that with which the authors of the American Restatement were faced, the task undertaken by the draftsmen of the PECL has a more creative nature. See id. at 483 (“Divergences between the national legal systems had to be resolved, decisions implying value judgments and policy choices had to be taken, and sometimes unconventional solutions were adopted which the draftsmen of the PECL themselves describe as ‘a progressive development from [the] common core.’”); see also Reinhard Zimmermann, The Present State of European Private Law, 57 AM. J. COMP. L. 483 (2009).

Some think that the “distinguishing Asian feature” of the PACL is no more than an illusion.\textsuperscript{25} As a threshold matter, I reject the validity of that concern altogether. So long as the PACL is a product of comparative law study and is built on the basis of the existing Asian laws, there is no need to worry that there is not any distinguishing Asian feature.

However, I am not so pessimistic about whether the PACL contains Asian characteristics. For example, when the Chinese team prepared the “Performance of Contract” portion of the PACL, the participants found that a creditor’s right of subrogation and right of revocation are two common cores of the laws of Japan, South Korea, and China (including Taiwan).\textsuperscript{26} Accordingly, the Chinese team drafted articles to reflect those rights. Since there is no corresponding part in both the PECL and the PICC, such rights can justifiably be considered a distinctly Asian feature in the PACL.

Although the PACL project has not dealt with the release of claims yet, that would be another distinguishing Asian feature. There is a noticeable difference between the idea of release between the West and the East. In the West, release is normally understood as a contract requiring an agreement of the two parties. The basic idea is that a “favor should not be forced.” In the East, in contrast, release is a unilateral act.

The PACL is not merely a set of rules and principles. It should be viewed as a whole, and the black letter rules are an integral part of the whole. Thus, the above question regarding distinctly Asian features may be divided into two parts.

First, is there any distinguishing Asian feature in the black letter rules of the PACL? The answer is “not exactly”; however, we should not be disappointed about that answer, because it is not desirable for the black letter rules of the PACL to have an excessively Asian character. Such an outcome would signify that the PACL runs contrary to the harmonization or unification of global contract law.

Second, is there any distinguishing Asian feature in other parts of the PACL, including the commentary, the notes, and the national reports? This question involves the underpinnings of the black letter rules of the PACL. It reveals the rationale, the understanding, and the logic of the rules. It also reveals the practical experiences of the rules. This part of the PACL can and should have a distinguishing Asian feature.

Behind the phenomenon of the controversial issue of “distinguishing Asian feature” lies a divergence of the understanding about work methods of the PACL. Unfortunately, its logic is that Asian features—including

\textsuperscript{25} See Naoki Kanayama (金山直樹), [From Comparative Law to PACL], 973 NBL 8, 14 (2012).

\textsuperscript{26} For provisions on the creditor’s right of subrogation, see Japanese Civil Code art. 423; South Korean Civil Code art. 404; Taiwan Civil Code arts. 242–243; Chinese Contract Law art. 73. For provisions on the creditor’s right of revocation, see Japanese Civil Code arts. 424–26; South Korean Civil Code art. 404; Taiwan Civil Code arts. 244–245; Chinese Contract Law arts. 74–75.
Asian law—are no more than results of the reception of western laws, a mere copy that created a quick product “made in Asia.” On the other hand, finding Asian laws will lead to careful comparative studies, thus allowing researchers to find a common core of Asian laws, and finally, yielding a possible Asian common law.

F. The Prospects

What may one expect to be the result of our efforts? Will the Principles of Asian Contract Law become rules written in the sand?\textsuperscript{27}

The PACL is a part of the academic discourse in Asia. We are now reviewing and finalizing its articles and preparing comments and notes for it. It is not easy, but we are trying our best to finish and publish it. We aim to publish Part I of the PACL—“Performance and Non-performance”—and a European publisher will publish the English version. In Asia, Chinese, Japanese, and Korean versions will also be published.

There will be no Asian equivalent of the European Union in Asia in the near future, and it is therefore impossible for the PACL to become the actual law of the entire Asian continent. However, some Asian countries, including Japan and South Korea, are amending their national civil laws. The PACL can serve as a model for such work. In that way, we may realize the harmonization of national contract laws in at least East Asia. Additionally, the PACL may also eventually play a role in both arbitration and trial law.

\textsuperscript{27} This was the question faced by professor Ole Lando when he worked with his colleague to draft the PECL. \textit{See} Lando, supra note 22, at 584.
Villanova Law Review, Vol. 58, Iss. 4 [2014], Art. 7