



The Canon Institute for Global Studies

To Enhance the Economies of Both Japan and China

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Middle Income Trap?

Obstacles for the Chinese Economy

- ▶ **Inefficiency** caused by the expansion of the activities of **state-owned enterprises**
 - ▶ **Decrease of the working population** from 2013 on → less competitiveness of the labor intensive industry → **economic growth driven by export would be hampered** without structural reform of the economy.
 - ▶ Big **income gaps** → **domestic demand will not increase enough** to sustain economic growth
 - ▶ More stringent **environmental regulations**
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The close economic relationship between Japan and China-(1)

- ▶ Japan resumed ODA (Official Development Assistance) for China first in the world since Tiananmen Square Incident.
- ▶ **Trade and investment** has made a great deal of contributions to the economic development of both countries.

The **size of trade** by both countries is great. China is the largest trade partner for Japan. Japan is the second largest trade partner for China.

The **characteristic of their trade** is unique. Japan exports high-tech parts and materials or manufacturing machines to China and China produces and exports final products to the US and the EU. Both countries has formed **an interdependent, intertwined and inseparable supply chain** in the East Asia.

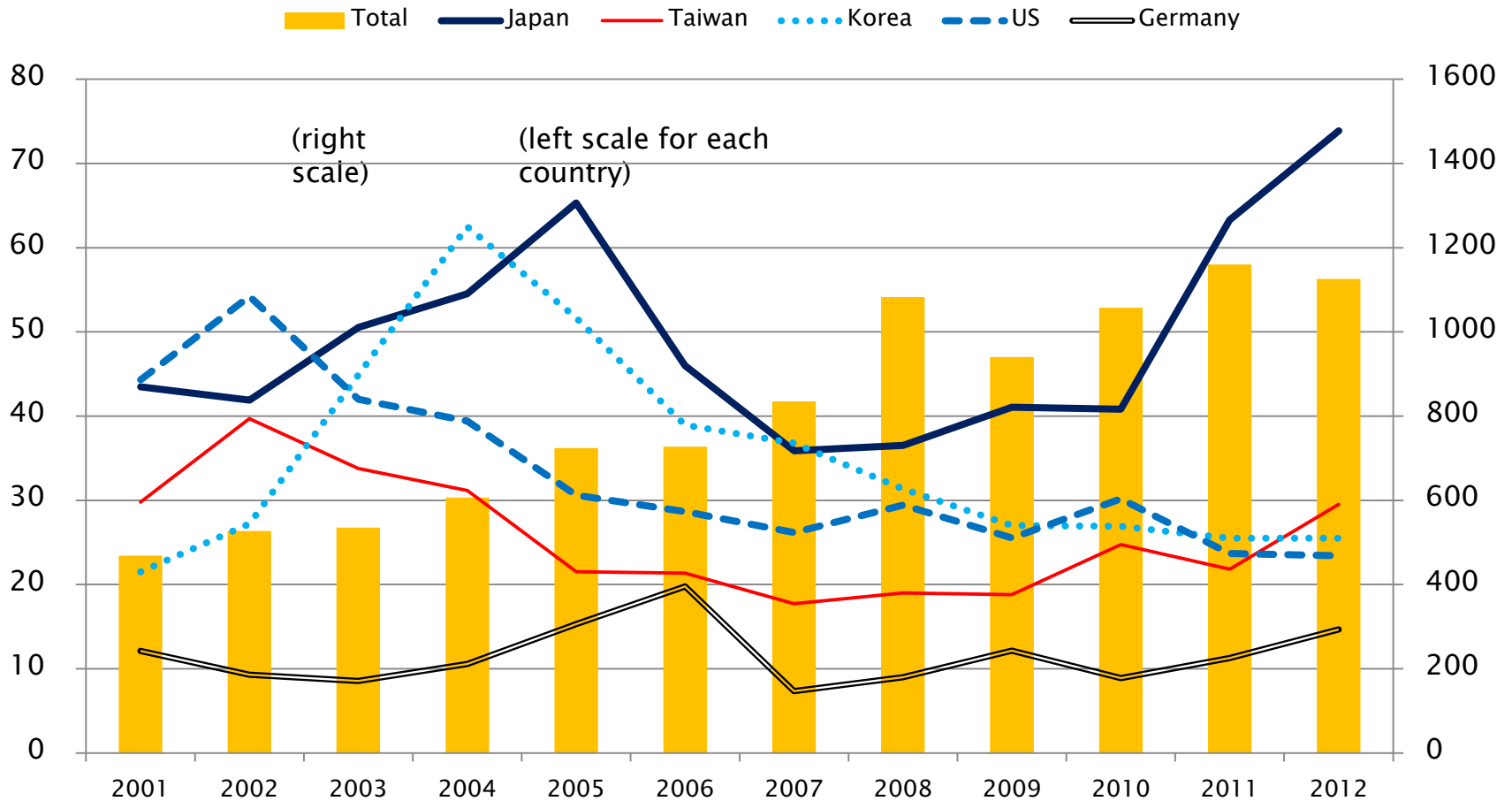
The close economic relationship between Japan and China(2)

- ▶ **Japan is the largest investor for China.** In January to August in 2012, while the entire world's direct investment in China declined by 3.4%, Japanese investment in China increased by 17.0%.
- ▶ With increase of Chinese per capita income, more and more Japanese companies **regard China as not a big factory but a great market.**

Rather than manufacturers of export-oriented labor intensive industry, **manufacturers who produce goods for high income Chinese consumers and companies in the service industry have begun to make direct investments in China.**

This kind of direct investment will contribute to China's **transformation of its export-driven economy to the one based on internal demand.**

FDI to China by countries (100 million USD)



Note : Data of 2012 is calculated by Y to Y growth rate of the first half of the year. Source : CEIC

The graphs are produced by Mr. Seguchi, CIGS.

How to improve the economies of both Japan and China(1)

- ▶ “De facto” close relationship should be reinforced and consolidated by “de jure” or institutional system through comprehensive economic partnership agreements.
- ▶ Increased transparency and predictability by agreed proper rules and disciplines will facilitate and promote trade and investment in order to further integrate both economies.
 - a. the elimination of tariffs on almost all of the products including agricultural products. Substantial agricultural policy reform is required for Japan.
 - b. the unification or harmonization of technical regulations and standards. the elimination of non-tariff barriers retarding trade. the protection of intellectual property rights.
 - c. liberalization of investment through national treatment, most favored nation treatment, and no performance requirements.
- ▶ Cooperation in the field of domestic policies such as environmental regulations and competition policy.

How to improve the economies of both Japan and China(2)

- ▶ **Economic policy dialogues** should be promoted between two countries so that China may overcome economic obstacles and achieve structural adjustments. This is in turn beneficial for Japan.
- ▶ Japan has faced and tried to solve the similar problems. China may get some insights from Japanese experience of both successes and failures.
 - a. **structural economic reform** faced with appreciation of yen and trade friction with the US in late 70s and 80s
 - b. **closing the income gaps** between farmers and workers in 60s and 70s and those among regions from 70s on.
 - c. **privatization or division of state owned enterprises** against the strong opposition by vested interest groups in late 80s.
 - d. **pollution and environmental problems** in 60s and 70s. (a regulation produced the most fuel-efficient cars in the world)
increase of **the price of real estate** in 80s

Concluding Remarks

- ▶ Both economies are so interdependent, intertwined and complementary with each other that it will harm both economies not to treat the other on good terms.
- ▶ If Japan and China cooperate with each other, both countries can overcome their difficulties so that they will ameliorate the economic conditions and enjoy sustainable economic development of the whole world as well as both countries.

Thank you!

