

# The Prospect of Economic Cooperative Relation between China and Japan

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## Preface

With the reform and opening up, China has been one of the countries in the world whose economy has been increasing rapidly in the past few years. Among these years, the increasing of GDP of China levels off at 7% or so, because of the reasons mentioned above, the demand of China to search for the economic cooperation abroad has become more and more intense. At the same time, Japan, a developed country in Asia, after its resuming regular diplomatic relations with China, has made much progress in the economic cooperation with China. However, we should detect under the big ground of good economic relationship between China and Japan conflicts although happen constantly. One example is the trade conflict of farm products in 2001. In addition, the economy situation of Japan which hasn't recovered from the Asia financial crisis becomes more and more serious, which casts a shadow over the vista of economic cooperation relation between China and Japan. Then, what is the prospect on earth of the economic cooperation between China and Japan? This thesis, which begins with the history of the economic cooperation of two countries combining with two nations' reality, especially the background of China entering WTO, will make a brief prospect of the cooperation of our two countries.

## The brief review of the history of economic cooperation between China and Japan

There is a Chinese old saying: History is the teacher of future. In order to make a better prospect, I think it is necessary to look back into the history.

Several "firsts" have been achieved in the economic collaboration between the two countries.

Firstly, Japan has been the biggest trade partner of China since 1993 and China is the second biggest one of Japan. The total amount of bilateral trade has added up to 66.2 billion dollars compared with 1 billion dollars in 1972.

Secondly, as the vice-premier Zhu Rongji said in 1994: the export trade of technology into China by Japan holds 28% of the total amount of China technology

import, which is second to none.

Thirdly, the rate of the arrival of investment fund given to china by Japan is the highest of all the countries.

Fourthly, Japan corporations rank the first in the aspect of the total amount of direct investment into china, which had risen to 22.5 billion dollars by the time of 1999, March.

As for the cooperation of government fund, Japan is the country that provides the largest amount of government loan for China. The fourth-time-loan started in 1996, 580 billion Japanese Yuban has been provided, which is called "the second government development assistance". In the World Bank and Asian Development Bank, Japan has also contributed loan to China.

These three items total over 70% of the loans from foreign governments our country has received, which also ranks the first.

Now we can see, Japan has achieved five "firsts" with china, including trade, export of technologies, direct investment, the rate of arrival of fund and the aid of government. We can draw the conclusion from these "firsts" that the long-standing and economic cooperation relationship between china and Japan is prominent.

However, the path is not smooth all the time. As we can see, in 2001, Japan has imposed the quota restrictions on the import of Chinese farm products. In effect, not only in area of farm products, but also in the other fields like intellectual property right of knowledge and opposition to the trade pour, there are many disputes between the two countries.

The main content of this section is to review the history of economic cooperation between China and Japan. History can serve the present. No wonder that we have the splendid past, in economic cooperation but there is no denying the fact that our conflicts may be intensified. Another point I want to say is that the continual decline of economy of Japan has made the negative influence on the economic cooperation of our two countries. The increasing of economy in China and its participation into WTO will also make an impact on the economic cooperation of our two countries. What is worth-while to ponder over is how to see our two countries' situation clearly, how to draw the experience and lesson from history, how to seize the opportunity and adjust the strategy in order to realize the pattern of mutual benefit between China and Japan.

## **Chapter 1**

**The mutually supplemental character of economy between China and Japan decides the essence of economic cooperation and the pattern of mutual benefit**

In this section I will try to explain the essence of two countries' economic cooperation and the formation of mutual benefit pattern with the background of China's participation into WTO. There are three aspects we should notice.

First, the mutual supplement of the low cost of Chinese labor force with Japanese industry.

It is known to all that Japan obtained the foundation of its the rapid development of economy through the labor-intensive processing industry. Nevertheless, with the

strength of its economic power, especially after 1970's, the cost of domestic labor force increased, in Japan the industrial of concentrated labor earned little. After reform and opening up China relied on its numerous cheap labor forces to supplement the insufficiency of Japan. And then many famous Japanese enterprises of electrical appliance such as TOSHIBA, HITACHI, SONY, SANYO, established their production base of processing the fittings in Shenzhen and in Guangzhou. They transport the fittings to China in order to be assembled and sold back to Japanese market, which has resulted in profit. On the one hand, Japan takes full advantage of the cheap Chinese labor force and reduces the cost of production largely. In other words, the rate of benefit is increased. On the other hand, China is eager to make use of Japanese fund and processing of technologies to develop its own economy. If such mutual supplement can go on, two sides can get more profit.

## **Chapter 2**

### **The mutual supplement of Chinese rich resources with Japanese strong technological power**

In view of the reality of these two countries, China is a big country in resources and a small one in technology. The situation of Japan is to the contrary. Japan is a country lacking in resources, which annually imports from foreign countries mineral products, raw material, food amounting to 7000 billion ton. Japan has the population of 0.12 billion, on the average, 0.6 million ton per head annually. Every year China exports a large amount of coal, iron, wood and other resources which are the essential material foundation for the economic development of Japan. At the same time, in order to catch up with America in the field of high technology, Japanese government has made a decision to foster two objects: IT and biologic technology, which is called "the project in the new century". Our two countries have many problems and benefit, in common. In China in Guangdong area and coastal cities near Shanghai, the functions related to computer and IT is assembling, our two countries can make great achievements in the cooperation of the high technology. It's the strongest association that resources combine with high technology.

## **Chapter 3**

### **The mutual supplement of Chinese big domestic market and Japanese abundant overseas investment fund**

To Japan, China has a market with much potential. Among the goods exporting to Japan, the products made in China take up 14.5% of the total, just second to America. Last year the trade to China from Japan increased by 29% compared with the previous year, which created the highest record in the history. The reasons are that China has become one of the bases of IT and the enemstive production of fiber and farm products has been enlarged.

In the light of the data above, both anticipate that the total amount of trade between

them smoothly break through 100 billion dollars smoothly at the fastest speed. In the area of investment, in line with the statistics of department of external trade in China, the declining trend of investment into China from Japanese enterprises has been stopped since 2000. Only in the early four months in 2000, the total number of investment items can to 552, which increased by 38% compare with that of the same period in the last year. Furthermore, the amount of contractual Japanese capital of (converted to US dollars) 82.183 billion dollars went up by almost 4.9%. Moreover, with the practice of the development strategy in west era China, Japan has a precious place to invest. Among 23 items that Japan invested last year, ten belonged to inland. It is estimated that by time of 2005, the total amount of capital from Japan to China will have reached 60 billion dollars. The middle and west era posses the advantages in energy resources, market, labor force and so on. The rapid increase of investment from Japan into China will take place in the middle and west era of China. The latent capacity of China market is great. As long as our two countries collaborate together, the opportunities of commerce are infinite.

After China enters WTO, a bigger and better terrace can be built for the mutual benefit between our two countries. China will transform its current opening policy, which is limited in only countable ranges and fields, into all-round open, opening policy, from the guiding of policy into the anticipative opening in the frame of law, one-way self-opening into mutual opening among members of WTO. China is making full use of time to sort out, revise and perfect related laws and regulations to set up and improve the system foreign affairs conforming to the international rules. The departments of our government are accelerating the speed to transform their functions and methods of work, to improve the efficiency, administrate abiding by law, learn to do a good job in management and service. In accordance with international rules, China government is to create a more ideal investment environment for countries all over the world. And the sequence of market economy with better standards, which are identical with the world's, can provide great confidence and reliable protection for investors from foreign countries.

In short, China has rich resources, vast market, abundant labor force with low cost while Japan has technologies and fund. As long as our two countries spare no efforts to cooperate, our economy will reach the combination of higher extent. When Chinese economy develops through such a kind of collaboration, Japan can also obtain the corresponding benefit from China. The benefits of our two countries are tightly connected. Without mutual benefit, both sides will suffer and neither will gain. Such a consequence is what we don't want to see.

## **Chapter 4**

### **The strategic adjustments of investment into China that Japan should make**

It can't be neglected that there are many differences between economic cooperation between our two countries, maybe the word "conflict" is more suitable. The war of trade of farm products beginning from 2001, April is the result of intensifying conflict. As mentioned above, this can only result in the situation of both sides suffering and neither

gaining. How to seek common ground while maintaining differences and how to transform difference into something common are the questions we should think over. I think our two countries should go to great lengths to resolve our conflicts. It is beyond doubt that we can resolve the conflict to the great extent adjusting each other's strategy for mutual adaptation. Now I venture to point out some defects of investment strategy into China from Japan by explaining the difference of investment strategy between the West and Japan. I'll try to put forward some suggestions for the adjustment of investment strategy for Japan. If there is something wrong, I hope your corrections.

In the first place, I compare the investment strategy of the west and Japan. But the comparison short of media will be too vague and general. So I decide to start with the field of automobile investment in order to help us to realize the defects of investment strategy of Japan.

#### 4.1. The comparison of Japan and Germany

Now Santana cars produced by Germany company are widely known. However, the rate of popularity and fame of Japanese brand such as Honda and Toyota prove definitely inferior. Firstly, Germany stresses the localization of transnational corporation. The strategy he put forward in public is giving an aid to improve the ability of its automobile industry and finally achieve the nationalization and localization. Obviously this policy conforms to the benefit of China, China always advocates the way of regeneration though our own efforts. The aim of Germany General Motor company wins energetically support from both Chinese government and General Motor company, which benefits achievement of it's strategic goal in Asia. In other words, by means of the investment into China, China Taiwan and Korea, it can surround Japan and compete with Japan. By now, the rate of fittings' nationalization in Shanghai Dazong Corporation has exceeded 70%. The Japanese companies wants to occupy China market through exporting cars to China, whose effect is not satisfying. Secondly, Germans attach importance to the cultivation of manpower resource and many employees get the opportunity to be trained in both China and in Germany. With the improvement of knowledge level of local employees, Germans are willing to cooperate with local employees to develop the technologies of car production including high techniques, which enhances the potential of development of Germany company in Chinese market. However, what Japan has done in this field is not satisfactory, which remains in the field of processing of car fittings. The local enterprises providing Japanese car to China are rare, not to mention exploiting IT with China together. If things continue this way, the initiative of China will be reduced much, which will raise one obstacle after another.

#### 4.2. The comparison of Japan and America

In China, as to the automobile company of being invested by America, the well-known company is GE car company in shanghai. It is no more than 5 or 6 years since it settled in Shanghai, whose BUCK car and sanou-a new economic design for home use is popular with Chinese consumers, which takes on the trend of surpassing other competitors. Its strategy is similar to Germany's. Nevertheless, One feature of its strategy is unique. GE has made a pledge that it will carry most advanced technologies

to China and maintain the advance of them, which appeals to China with backward technologies of producing cars. GE has an admonition "Only by taking the lead in the car industry of China, can GE take the lead in world car industry." By contrast, Japan enterprises are too conservative. For instance, one of the main directions of Chinese government to develop is a small energy-saving car, while in 1970's Japanese car companies began to produce small energy-saving cars which were popular in world stage. To protect our environment, what China needs is Japan's technology of the pouring of wasting gas. It still remains fresh in our memory that at the beginning of 1980's, Japan did a good job in formulating the standards which exceeded European and American standards. However, it's a pity that Japan didn't make a breakthrough in the collaboration with China.

The above-mentioned compares the investment strategy of car industry between Japan and the West. In addition, I have pointed out some faults made by Japanese companies. And as it should be, Japanese companies aren't without a single redeeming feature. The author wants to explain the essence of the adjustment of strategic investment into China from Japan through analyzing the differences of strategy between China and Japan. I think proper adjustments are better for the prospect of increasing our two-countries' economic power. I think there are three aspects that Japan should adjust.

***(1) The adjustment of strategic idea  
Changing one-way investment into cooperation***

I always think one country's guiding idea of investment abroad is crucial. Looking into the history of economic cooperation between these two countries, the majority of investment into China from Japan is the labor-incentive industry. We can say this kind of one-way investment was available during the early time. (At that time China needed this kind of investment to establish it's own assemble-line production and cost of labor force is very low.) But now regardless of Chinese or Japanese or international circumstances, this kind of one-way investment strategy can't adapt to the current changing situation. Looking into China, with the develop of economy, we can see the cost of labor force along the coast where Japan invest much has become higher and higher, which makes the profit of the production of the concentrated labor decrease. Besides, Chinese government and companies have gradually become aware that during the modern times when the economic competition all over the world become more and more serious, the industrial of the concentrated labor will be eliminated through selection, in other words, if a country wants to win the victory in a thoroughly economic competition among countries in future, it has to lead the way of IT. So the government and firms of China have lost interest in the industrial of concentrated labor and the supports of this policy have weakened. From the side of Japan, now that the potential of industrial of concentrated labor in China is small, Japan should adjust the strategy of investment into China immediately. As far as I know, Japan feels deeply that he has fallen behind by America in the field of IT, so its government has decided to lay much emphasis on supporting the IT industry, in this field China and Japan has much benefit in common. Here, what I'd like to stress is that: Japan shouldn't abuse China. Prejudice can't help promote two country's relation. Nowadays China is capable of collaborating

with other countries to do the research of high technology. Only through cooperation can these two countries obtain most benefit. If a product is invented or developed by two countries, China is certain to distribute benefit according to the task each of them. I also believe it, with China's entering WTO. Its defense of intellectual property right and patent will be stronger than before. Looking into the international circumstance the main trend of economic cooperation is the form of mutual investing and doing research together. The relations of economic cooperation between America and Mexico in North America Free Trade Region can give us much enlightenment. Just like China and Japan, one is a developed country, the other is a developing one, but their level of cooperation and extent of market's combination are higher than Sino-Japan's. Depending on such light relation of cooperation, America gets considerable benefit annually. Then what about the economic cooperation between Sino-Japan's, can it be broken through? We are expecting the result. Moreover, in China market, the competition of international capital gets more and more serious, especially the investment strategy of European and American countries' features the development and import of technologies, which attract Chinese government and companies very much. If Japan misses the chance of altering its investment strategy, In the near future it will be driven out from the market of China.

***(2) The adjustment of strategic basis***

***Changing the export of products into the localization of firms and employees***

The strategic basis should be adjusted after the strategic idea has been changed. The foundation of investment strategy from china of Japan is as follows: the spare parts which are processed in china sell back to Japan, then the final products will be exported to china to exploit the market.

This kind of investment has two fatal defects:

- 1) The period of production lengthened, which makes other countries easy to occupy the market in advance.
- 2) Because of the lack of accurate message in Chinese market, the products produced in Japan don't necessarily meet the needs of consumers in china; which brings out the failure of management.

By contrast, the localization the companies and employees used by European and American corporations has been demonstrated to have many advantages:

- 1) Shortening the cycle of production in order to occupy the market in time.
- 2) Making decision of quicker and more effective. Owing to the localization of companies and employees, the speed of policy making is accelerating. What is more important is that the localization can help companies find the correct market messages and the needs of consumers; which can serve to make the decision conforming to the local situation.
- 3) Reducing the cost of production and the prices of goods. On the one hand, the localization of corporation can free the products from duty when they are exported to China, which can reduce the market prices of products and then increase their ability to compete in the market. On the other hand, the localization of employees can free the expenses of visiting relatives, purchasing houses or children's going to international schools, when the companies use the Japanese

employees, Which saves a large amount of cost of productions and increase the company's profit. Besides, China is glad to see that Japanese firms helps him to cultivate a group of employees with high qualification and good management, so the localization of firms and employees can create a good situation from both china and Japan can benefit.

### ***(3) The adjustment of strategic core***

Changing the processing and trade into the research on high and new technology together. Japan relies on trade to develop its economy and has internationally advanced technology and rich experience in the field of processing and trade. Perhaps on account of the facts mentioned above, Most of the first items Japan invested in china, we are the processing industrial of concentrated labors. To the Japan companies, they are sure to profit from this kind of investment. But nowadays the “web economy is here at hand, the processing industrial of uncontracted labors is the industry of sunset, which is no longer to carry more profit to both China and Japan. By contrast, the IT industry such as message industry has vast space to develop which should be called “the industry of sun rising.” The prosperity of American economy in 1990's is based on IT industry, however, the 1990's of Japan is called “the lost ten years”. As mentioned above, Japanese government has been aware of the gap between Japan and America, focusing on the “new economy such as the message industry. Moreover, many famous Japanese enterprises have adjusted their strategy. For instance, Sony and Fuji, which are traditional manufactures of hardware, have decided to involve the field of service of software.

In China, IT is also a rising industry. I think Japan and China has many benefits in common in this field, which can increase our two matron's ability to compete in the world and facilitate our two countries' economic development.

## **Summary**

After the analysis in the last three sections, we can understand easily that our two countries have long history of economic cooperation and have also made great achievements. In addition, consolidating our two countries' cooperation is our joint hope. In the new century, China will take part in WTO, after that, China will reduce duty ,increase the transparent of institution and the operation of policies, loosen the restriction on foreign-investing enterprises, implement people's treatment, make the environment of investment more satisfactory. Simultaneously, Japanese government and firms should also get a clear understanding of the tendency of world's economic development and cooperation as well as the change of China market to adjust the investment strategy towards China so as to get more benefit from Chinese market.

Obviously, as long as our two countries follow the principles of searching for the common profit, neglecting the difference, the prospect of economic collaboration is unprecedentedly bright and anticipative. China welcomes all of you!