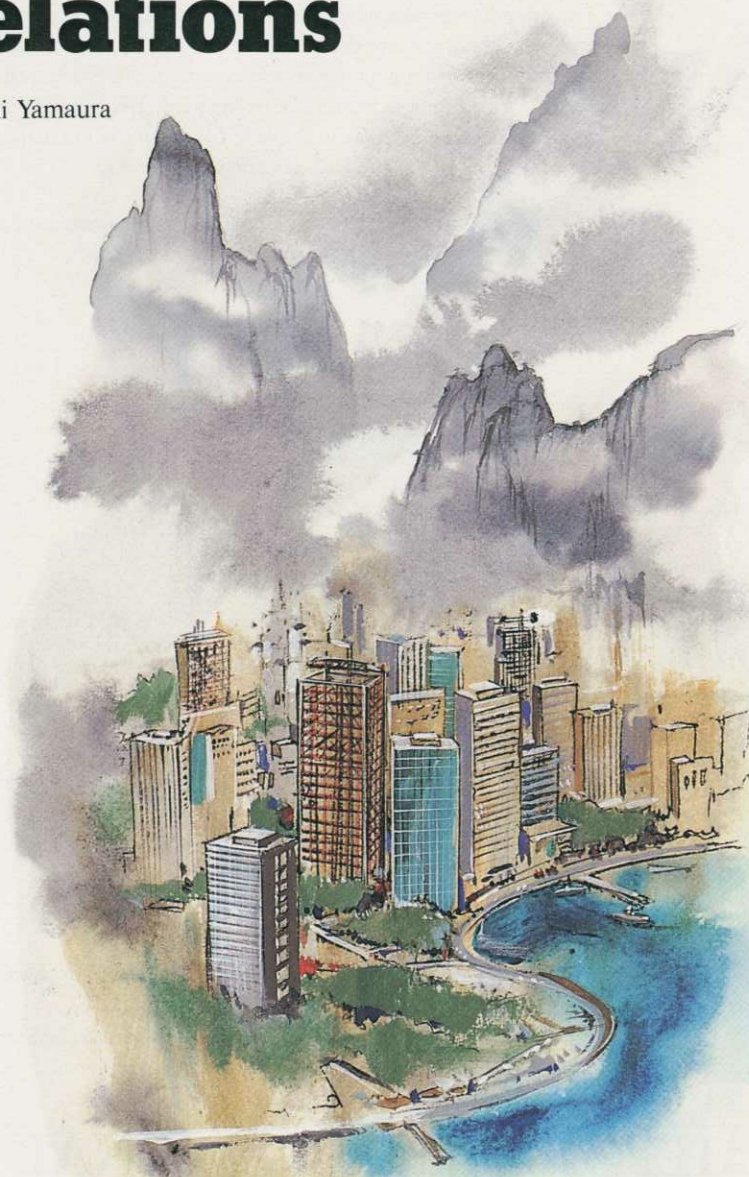


Japan-China Economic Relations

By Koichi Yamaura



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Japan's second "China Boom"

There has been much talk of a "second China boom" in Japan since 1984. Indeed, economic exchanges between the two countries through trade, investment and other channels have become remarkably active over the past year. Behind this burst of activity lies the fact that the Chinese economy has been developing at an accelerating pace in recent years, recording a high growth rate last year of 12%. China has already achieved the main target of its sixth five-year plan ending this year, and national income in particular has grown sharply under the lead of the agricultural sector. Another feature of China's recent economic performance has been the solid expansion of demand for durable consumer goods (Table 1).

It is three major policies—economic adjustment, opening of the economy to foreign businesses, and reform of the domestic economic system—adopted in quick succession since the late 1970s that have so improved China's economic health. China has even been given one of the highest credit ratings in the international community, as its leaders, reflecting on the country's massive cancellations of plant import contracts during the economic adjustment of the early 1980s, now give top priority to ensuring foreign confidence in their economic policy by scrupulously observing existing contracts and making payments without fail. Another reason is that China has resorted to macroeconomic management to control excessive economic growth that would have brought with it the risk of inflation.

Present Japan-China economic relations

1. Trade

Two way trade between Japan and China ballooned last year to \$13.2 billion. It has been continuing this fast expansion since the turn of the year, with Japanese exports to China showing a steep increase spearheaded by consumer electric appliances. Machinery and steel each account for around 40% of Japan's exports to China; when chemicals are included, the share of the three heavy industries rises to about 90%. Mineral fuels, including crude oil, account for more than 40% of

Japanese imports from China, followed by textiles and apparel at some 15% and food at 10% (Table 2).

Although Sino-Japanese economic relations are faring well in general, some problems have arisen. One is the trade imbalance. Japan has been running surpluses in its trade with China every year except 1981-83, when China strengthened import curbs under an economic adjustment policy calling for scaling down major industrial projects, reducing the budget deficit, stabilizing prices, emphasizing agriculture and light industry, and conserving energy. Japan's surplus began to swell last year, reaching \$1.3 billion. The first six months of 1985 saw a record semiannual surplus of about \$2.8 billion. The growing surplus stems mainly from a surge in Chinese imports, up 47% in 1984, which has far outpaced the 17% rise in Japanese imports.

Seriously concerned about the imbalance, China has sought Japanese co-operation in promoting its exports. But it may be difficult to restore balance over the short term so long as China's enormous appetite for imports goes uncontrolled. Japan favors medium- and long-term expansion of balanced trade, in which connection it will be necessary to push cooperation in expanding Chinese exports to Japan.

Another problem is the textile trade. Textiles have assumed increasing weight in bilateral trade. Sharply rising imports of Chinese cotton yarn and fabric have seriously affected Japan's domestic industry, and it is hoped that the Chinese will export in an orderly manner in consideration of Japanese concerns.

China has strengthened import restraints since the start of this year, mainly in provincial areas, by limiting the use of foreign currency in order to hold down extravagant imports of consumer goods. It is a natural action in view of what appears to be an abnormally sharp increase in imports of consumer goods since last year and China's own plans to expand domestic production of such products. The measure is expected to put a brake on Japanese exports of consumer goods to China over the short term. But China's appetite for materials and equipment such as steel and industrial machinery are certain to rise steadily so long as the present policy of promoting economic development is maintained along with sustained economic growth. And China will need to import a certain level of consumer goods if national income is to continue to rise. Given these points, Sino-Japanese trade is expected to expand, albeit with some fluctuations, and

Table 1 Main Targets and Achievements of China's 6th 5-Year Plan

	Unit	1980 Results	1985 Planned	1984 Results (year-on-year % changes in parentheses)
Industrial & agricultural output	bil. yuan	663.8	871.0	1,062.7 (15.4)
Industrial output	bil. yuan	499.2	605.0	701.5 (15.2)
Agricultural output	bil. yuan	164.6	266.0	361.2 (15.7)
Foreign trade	bil. yuan	56.38	85.5	120.12 (40.0)
Exports	bil. yuan	27.24	40.2	58.06 (32.5)
Imports	bil. yuan	29.14	45.3	62.06 (47.1)
Trade balance	bil. yuan	-1.9	-5.1	-4.0
Total wages	bil. yuan	77.25	98.3	111.23 (19.0)
Net income per farmer	yuan	191.33	255	355.3 (14.7)
Population	mil. persons	987.05	1,060.00	1,036.04

Note: About 2.8 yuan = \$1 as of the end of July, 1985

Table 2 Japan-China Trade

Total Trade (\$ million; year-on-year % changes in parentheses)

Year	Japanese exports (A)	Japanese imports (B)	Both ways	Balance (A-B)
1974	1,984 (90.9)	1,304 (34.0)	3,289 (63.4)	679
1975	2,258 (13.8)	1,531 (17.3)	3,890 (15.2)	727
1976	1,663 (-26.4)	1,370 (-10.5)	3,033 (-20.0)	291
1977	1,939 (16.6)	1,547 (12.9)	3,485 (14.9)	391
1978	3,049 (57.3)	2,030 (31.2)	5,079 (45.7)	1,018
1979	3,699 (21.3)	2,955 (45.5)	6,653 (31.0)	743
1980	5,078 (37.3)	4,323 (46.3)	9,402 (41.3)	755
1981	5,095 (0.3)	5,292 (22.4)	10,387 (10.5)	-197
1982	3,511 (-31.1)	5,352 (1.1)	8,863 (-14.7)	-1,842
1983	4,912 (39.9)	5,087 (-5.0)	9,999 (12.8)	-175
1984	7,217 (46.9)	5,958 (17.1)	13,175 (31.8)	1,259
1985*	5,997 (107.8)	3,160 (7.0)	9,157 (56.8)	2,837

Note: *First six months

Main Products Traded (\$ million; % share of total in parentheses)

Exports	1981	1982	1983	1984
Steel	967 (19.0)	1,272 (36.2)	2,203 (44.8)	2,668 (37.0)
Machinery	2,433 (47.8)	1,067 (30.4)	1,378 (28.1)	2,961 (41.0)
Chemicals	523 (10.3)	470 (13.4)	510 (10.4)	610 (8.5)
Imports				
Crude Oil	2,333 (44.1)	2,341 (43.7)	2,080 (40.9)	2,345 (39.4)
Textiles	551 (10.4)	573 (10.7)	622 (12.2)	888 (14.9)
Food	556 (10.5)	504 (9.4)	523 (10.3)	630 (10.6)
Coal	189 (3.6)	213 (4.0)	213 (4.2)	204 (3.4)

Source: Customs Clearance Statistics

on the condition that Chinese exports also be allowed to increase.

2. Investment

In order to accelerate economic construction, China has moved since late 1978 to improve the climate for investment from abroad, including new legislation, establishment of special economic zones, offering of privileges for foreign investors, conclusion of bilateral invest-

ment agreements and accession to international treaties. As a result, foreign investment in China has taken off in the past two years. Official Chinese figures show that joint ventures with foreign interests numbered more than 900 by the end of 1984 (Table 3).

Japanese corporate investment in China was sluggish initially due to a cautious view of China's investment climate. But it came to life last year, when there

Table 3
China's Joint Ventures with Foreign Countries (no. of cases)

	End of 1983	End of 1984
U.S.A.	22	61
Japan	12	57
Western Europe	16	33
Chinese overseas and others	138	780
Total	188	931

Sources: Chinese Ministry of Foreign Economic Relations & Trade, etc.

were 66 cases of investment totaling \$114 million. Sino-Japanese joint ventures established by the end of 1984 exceeded 50, and the number has been increasing at a rapid clip since the turn of the year.

The Ministry of International Trade and Industry (MITI) has thrown its support behind Japanese business investment in China. It has dispatched missions to probe China's investment climate and will now accept insurance for investment in the country. Negotiations are under way to conclude a bilateral investment protection agreement, and the ministry has requested the Chinese government to improve the investment environment.

Among problems they face when investing in China, Japanese businessmen single out the limited duration of joint ventures, set in advance at 10-30 years, inadequate legislation, and the obligation to export some products to ensure holdings of foreign currency on a company-by-company basis. If these points are improved, Japanese private investment in China could begin increasing at an accelerated pace.

3. Economic cooperation

(1) Financial cooperation

a) Yen credits

China has sought funds from foreign governments since 1978 as part of a plan to borrow from abroad. Japan already provides China with low-interest, long-term credit to help solve the country's most urgent problem—improving its infrastructure. The first yen credits, totaling ¥330.9 billion (about \$1.3 billion at the exchange rate of ¥240/\$1), were offered between 1979 and 1984 to finance such projects as the construction and expansion of harbors and railways.

Japan has pledged a second yen credit line of ¥470 billion (about \$1.9 billion) for the seven years through 1990. The money will be used to finance seven projects, including railway, harbor and communication network construction and hydroelectric power development.

b) Interbank loans for energy projects

Japan is offering long-term, low-interest loans from the Export-Import Bank of Japan to the Bank of China to help promote the development of the country's rich reserves of oil and coal and thus contribute to China's economic development. The first interbank loans, totaling ¥420 billion (about \$1.7 billion), were extended in 1979-83 to finance three oil projects, including the development of oil fields in Bohai Bay, and seven coal projects. Japan pledged late last year to offer a second set of interbank loans totaling ¥580 billion (about \$2.4 billion) for developing the Jungar coal mine and other projects.

(2) Technical cooperation

a) Cooperation in plant modernization

Since adopting its economic adjustment policy in 1979, China has focused on retooling existing factories rather than building new ones, which requires massive funds. The aim is to improve productivity while minimizing equipment imports. This policy was taken up as one of the key tasks of the sixth five-year plan. Since 1981 Japan has been assisting China, under MITI's coordination, in checking existing plants and introducing equipment necessary for remodeling. Such cooperation at both government and private levels had been extended in a total of 116 cases by the end of March 1985.

b) Other technical cooperation

Other forms of technical cooperation at the government level include acceptance of trainees, dispatch of specialists, cooperation in providing, developing and surveying necessary materials and machinery, and extension of grants in aid. Private level technology transfers to China are also taking place on a broad front. China is especially interested in expanding trade involving technology transfers rather than simple trade. Japanese businesses should cooperate actively in meeting such Chinese requests.

4. Cooperation in resources and energy fields

(1) Cooperation in oil development

Japan is pushing various forms of cooperation to help China develop its oil resources, including the financial assistance through interbank loans mentioned before, and participation in an interna-

tional tender for oil development off the mouth of the Zhujiang River and joint development of oil resources in Bohai Bay.

(2) Cooperation in developing hydroelectric, thermal and nuclear power

In order to realize China's economic development plan for quadrupling industrial and agricultural output by the year 2000, the country must create 200 million kilowatts of additional electric power. Already, power shortages have become a bottleneck in plant operations. China intends to develop 30 million kw of new electricity under its seventh five-year plan starting in 1986. Of the planned additional power, thermal power is projected to account for 60-70% and hydroelectricity 30%, with nuclear power playing a leading supplementary role. From a longer-term perspective, China plans ultra-large hydroelectric development projects in the 10 million kw class. Japan is ready to take advantage of its rich experience in power development and operation to positively assist Chinese power projects. An important step will be the expected signing of an agreement with China on nuclear power development.

Prospects for the future

The opening of the economy to foreign interests and other policies taken by the Chinese government have so far had the desired effect. At this point there seem to be no factors that could cause radical changes in the near future. There are signs that China is increasingly confident of its present policies, with the Communist Party, for example, confirming that the introduction of a market economy can be accommodated within the framework of socialist theory. It should also be noted that support for current policies has been solidified by the fact that opening the economy to foreigners and reforming the economic system have brought benefits to the general public by improving income and producing other favorable results, although they also have caused some transitional adverse effects.

All considered, there seems an excellent possibility that Sino-Japanese economic relations will expand and deepen in the future. But on a cautionary note, it will be difficult to completely escape the opacity and other limitations stemming from China's socialist system. Japan should take full account of such Chinese realities as it continues positive and practical exchanges and cooperation to help China maintain and develop its present policies, looking forward with hope to its neighbor's further development. ●