

ECONOMICS & POLICY STUDIES

LIM HUA SING

JAPAN'S ROLE IN ASIA

Mutual
Development
or
Ruthless
Competition

4th
edition

EASTERN UNIVERSITIES PRESS

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Preface to the Fourth Edition

Forceful measures have not been taken despite favourable economic fundamentals

Japan's economic role in the world and Asia in particular, has been diminishing since the collapse of the bubble economy in 1991. Over the last 12 years, the Japanese economy has not managed to recover and her contribution to Asia (in terms of foreign direct investment, international trade, Official Development Assistance and technology transfer) is becoming less and less important.

Needless to say, the Japanese and Asian economies are interdependent as well as complementary. Japan can contribute more to Asia only when she has recovered economically. Similarly, Japan can benefit more from Asia only when Asia's economic development is on the right track. On Japan's side, despite a long period of economic sluggishness, some economic strengths have surprisingly remained unchanged. Japan is considered as number one in the following categories.

First, foreign currency reserves have amounted to US\$485.3 billion as of March 2003 (China ranks second in the world with US\$212.2 billion in year 2001). It is due in large part to Japan's international trade drive and more recently, the government's currency interference through selling Japanese yen in exchange for the greenback, in order to fulfill a weak yen policy.

Second, Japan's total net overseas assets amount to 133 trillion yen as of December 2000. Overseas assets held by Japanese banking corporations alone have amounted to 45 trillion yen as of December 2002. It indicates that Japan has accumulated a substantial amount of long term overseas capital investments as well as foreign national bonds and equities, especially in the United States.

Third, Japan's ODA during the 1991-2001 period was the largest among the DAC countries. It became the second largest since 2002 but still accounted for US\$9.7 billion (1 trillion 250 billion yen) in May 2002. The ODA budget reflects the economic strengths of a country and it has also been used to stimulate the advancement of a country's foreign business activities.

Fourth, Japanese national assets (cash, deposits, bonds, investment securities, shares, insurance and pension) amounted to 1386 trillion yen by March 2001. It reached 8275 trillion yen in December 2002, if real estate and buildings are included. The main task of the Japanese government now is to mobilize these national assets in order to expand the domestic market and to activate the economy.

Besides these economic strengths, both big and medium-small sized Japanese enterprises have accumulated world-class technologies, which guarantee Japan's industrial development despite the economic recession. Furthermore, the economic downturn over the last 12 years has created a 5.6% unemployment rate in Japan, which is still rather healthy compared to the double digits we see in some European countries. And this is the reason why Japan is not in a chaotic situation.

Very few people could have predicted that Japan's economic downturn would drag on for 12 years, with no sign of recovery. Many Japan watchers are puzzled and cannot pinpoint what exactly is wrong with the Japanese economy. Policy-makers in Japan have so far managed to identify some basic ailments of the Japanese economy: non-performing loans, deregulation, deflation, strong Japanese currency and privatization etc. However, forceful measures still need to be taken to counteract these problems and fulfill economic goals.

Asia sees Japan's economic deterioration as a burden to Asian economic development. Now, Asia is expecting Japan to emerge from the economic doldrums, hopefully in 2-3 years time, and contribute to Asia's economic development in accordance with her economic strengths.

Can Japan's Role be Replaced by China?

China has been Japan's rival in Asia, in the economic, political, military and diplomatic arena. China's role in Asia, even if we restrict it to the economic front, has been increasing and to a certain extent, has replaced Japan. In the long run, China's role will become significantly more important at the expense of Japan.

Over the last 25 years, since she started implementing a 'reforms and open-door policy' in 1978, China has become the first country in the world to succeed in rapid and continuous economic development. Economic development in special economic zones and coastal areas has been particularly remarkable. The per capita GNP of Guangzhou, Shenzhen, Shanghai and Beijing have already exceeded most of the developing countries in Asia. As a developing country with a 1.3 billion population, China's economic development will continue to attract much attention.

However, together with economic development, China has encountered many serious problems – a drastic increase in income disparity between coastal and rural areas (in the year 2002, the ratio was 6:1), unemployment, expanding social gap between the poor and the rich, the 3Cs (corruption, collusion and cronyism), environmental pollution, non-performing loans and the privatization of state enterprises etc. Of course, it is unrealistic to expect China to have rapid economic development for such a long period without experiencing some serious economic distortions. The issue is whether China can solve these problems efficiently before they deteriorate further to create political, economic and social instabilities in the country.

At current levels, the rate of economic development in China is said to be about that of Japan in the 1960s. In other words, if we assume that Japan's economy is standing still, China will have to develop for another forty years to reach Japan's present standard. China's per capita GNP is US\$854 (year 2000) compared to US\$32,585 (year 2001) of Japan. The former is merely 2.6% of the latter.

China has become a "factory of the world". Chinese manufacturing goods have penetrated into international markets and Japan, together with the Western nations, have considered China as an economic threat. However, China's economic strengths should not be over exaggerated. Over the last two-and-a-half decades, how much technology has been accumulated by Chinese enterprises in China? How many local enterprises have been nurtured to become big enterprises or multinational corporations? How many local enterprises in China are run based on world level managerial practices? In other words, China's economic development has been relying heavily on foreign direct investment, technology and managerial know-how.

Also, some critics claim that China's legal system has not been developed to match domestic economic development processes, nor serve a highly developing nation such as China.

China still has a long way to go. The GDPs of China, Japan and the USA are US\$1.08 trillion (year 2000), US\$4.14 trillion (year 2001) and

US\$8.35 trillion (year 1999) respectively. The ratios are 1: 3.8: 7.7. China pledges to increase her GDP to around US\$5 trillion in twenty years, as is the Japanese standard today. Obviously, it is a very difficult task for China, but the Chinese people seem to have the confidence to fulfill it.

Some China watchers have even warned that the present bubble economy would burst sooner or later. They also claim that the “socialist market economy “(politically, it is a centrally controlled socialist system but economically, it is a western way of free competition capitalist economy) would not last very long. However, as the Chinese like to say, China has pledged to develop her economy with Chinese socialist characteristics.

Frankly, I am also rather optimistic about China’s economic development. Despite various economic distortions and contradictory economic development strategies, by the year 2008 when China hosts the Olympic Games, and by the year 2010 when China holds the World Exhibitions, China would by all means be able to develop without drastic setbacks. Even after the year 2010, say for another further 10-15 years, it is unlikely that economic development in China will have major retrogressions caused by serious macro-economic mismanagement. In China, the following factors are contributory reasons to economic development: approximately 900 million peasants are potential industrial labourers, cheap agricultural and industrial raw materials, big domestic market with a 1.3 billion population of which the middle class population has been increasing rapidly, political and social stability, and a mechanism set in place to proceed with economic reforms and an open-door policy.

Regional Economic Integration is An Engine for Asian Economic Development Japan and China are two important players in Asia, a declining player and an emerging player (Although Korea can be considered as a recovering player with economic potential). Other than the USA and the EU, Japan and China have had the most profound influence in Asia.

ASEAN 10 is a well-organized entity to which Japan and China have established increasingly important cooperation links with. In November 2001, China proposed the concept of a FTA (Free Trade Area) with ASEAN to be set up within 10 years. This concept, termed as CAFTA (China-ASEAN Free Trade Area) or ASEAN 10-plus-1, is being materialized faster than expected. Meetings and feasibility negotiations at governmental levels have been carried out frequently to expedite the process of regional economic cooperation and integration.

On the other hand, stimulated by China’s initiative, Japan has also proposed “comprehensive economic cooperation” with ASEAN in January

2002. This proposal was later termed as JAFTA (Japan-ASEAN Free Trade Agreement) or another ASEAN 10-plus-1. At the beginning, it was criticized as being without a definitive timeframe. How long was it going to take to set up? But recent sources indicate that Japan intends to realize the JAFTA within a period, which is even shorter than that of China.

Obviously, economic cooperation and integration endeavors in Asia are basically prompted by two factors. First, the formation of the EU and the NAFTA, with strong exclusive undertones, has restricted economic growth and cooperation of the Asian countries with these 2 blocs. Hence, the need exists to setup their own trading entities. Second, economic development within Asia has necessitated intra-Asia regional economic cooperation and integration, with an eye to expand into each other's trading markets.

With the initiatives of China and Japan, and most probably Korea in future, economic cooperation and integration among the Asian countries will be strengthened. Although China and Japan are rivals, they need to work closely for the benefit of Asia's economic development and intra-regional integration. Both CAFTA and JAFTA should be promoted accordingly, and eventually ASEAN 10-plus-3 (China, Japan and Korea) should be materialized under the concept of a pan-Asia regional economic integration outfit.

As an important economic power, it is hoped that Japan will move to implement economic policies more resolutely and consistently, in order to recover from her current economic downturn as quickly as possible, before its leading role in Asia is overtaken by China.

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