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**THE ROLE OF CHINESE MARKET IN JAPANESE  
ECONOMIC REVITALIZATION**

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## **Foreword**

There are so many people to assist and guide me in the process of my research on thesis topic, that without their help, it would be difficult for me to accomplish the thesis. First of all, I need appreciate my supervisor-Turaj S Faran, who instructs my article from the general outline to the detailed content earnestly. Under his guidance, I make a decision the concrete framework of thesis ultimately. And I also acquire many precious proposals in the communication with him, such as the specific case choice.

Then, It should thank Jan Magnusson and Marina Svensson, our coordinators in East and Southeast Asian studies Center of Lund University, for their accurate notifications and enthusiastic attention for my tasks.

I am also thankful that the coordinators and professors of Waseda University in Tokyo arranged the useful Japanese economy courses for us and try their best to support me collect material and data during our regional program in Japan.

Finally, with my gratitude to my research group members, they give me some valuable suggestions in discussion.

## **Abstract**

The purpose of my thesis is to make clear how current Japan in the early days of economic recovering looks on Chinese market, adverse or favorable, producing base or sale market. And the article discusses the influence of Chinese high growth on Japanese economic resuscitation from different facets, focusing on the mutual economic complementary beneficial for Japanese economy, which implies that the economic cooperation between Japan and China develops harmoniously, reciprocal to both sides more than hostile. It also shows the role conversion of China in Japanese oversea trade after WTO accession of China in 2001, transiting from a producing base

to a real market, which will promote China to play more dynamic function on economic recovering in Japan as well.

**Key words:** Japan-China trade, dynamics, economic cooperation, complementarity, investment, producing base, sale market, FTA (Free Trade Agreement) strategy, sustainable economic recovering

## **Introduction**

### **1. Background, purpose and disposition of thesis**

With the emergence of Japanese economic revival in 2003 and growth of Japan-China trade and investment, it is a controversial focus whether China is the engine of Japanese economic revival. The purpose of my thesis is making clear that which is more significant role of China to drive Japanese economy, opponent or associate, sale market or producing base. From 1990 to 2003, the growth of export to China has occupied 44 percent of the total increasing of Japanese export. Japanese direct investment to China not only brings plenty funds, but also introduces advanced technology and management experience, which improves quality and international competition of Chinese production. The interpretive approach is used to explain these substantive data collected from the custom of Japan and China, inducing a result that Chinese market is experiencing a role transition from producing base to both sale market and design center currently.

There follows a commentary on the impact of Japanese FTA strategy in East Asia on Japan-China economic cooperation. Moreover, Economic complementarity between two countries can save productive costs of both Japan and China, improving market value of productions and economic efficiency. Both of Japanese and Chinese government should pay more attention to economic co-prosperity and mutual benefits rather than political opposition and historic conflict in contemporary globalized and regionalized tendency. Following, I enumerate the complicated attitude of Japanese

society to China, including political, economic and academic fields.

Then, I analyze some cases of many large-scale Japanese MNCs(Multinational Corporation), improving the position of China in their global market gradually through describing the operating situation of Japanese enterprises in China concretely, which is the practical evidence for my argument. In the case that the growth of domestic individual consumption and the innovation of economic structure in Japan are laggard, Japanese economic recovering still require external propelling force. Finally, the article summarizes in eighth chapters that, while Japan is reforming internal economic structure, it should exert the positive function of China for Japanese economic recovering as a sale market, not only defined as a producing base, and promote the implementation of trade liberalization between Japan and China in order to make more contributions to sustainable economic revitalization of Japan.

## **2. Research questions and Methodology**

I will focus on two research questions. Why is it said that the high growth of Japan-China trade in recent years is a thrust for Japanese economic recovering and mutual profits to both sides? Has China actualized the role transition from a producing base to a sale market in Japan external trade? Research is regarded as the production and presentation of objective knowledge and based on the “pure data” and uninterpreted “fact”. I will present a statistical data of Japan-China trade and investment in recent years, which is basic to reveal Japan-China economic actuality. Then, I analyze these data through objective interpretation to induce a predication disproving “China threat” and supporting mutual complementary Japan-China trade issue. The combination of quantitative and qualitative approach is used for comparing two roles--sale market and producing base through document data, interview search and special case analysis. Synthesizing upper outcomes, it can summarize a conclusion.

# **1.The external dynamics for Japanese economic recovering**

## **1.1 various opinions about China**

Japanese economy has been trapped in long-term deterioration and stagnancy since burst of “bubble economy” in 1990. And with the high growth of Chinese economy, it has some negative estimation about China in domestic Japan. For instance, China is the essential reason to arouse Japanese economic recession; the rise of China may be a threat of Japan, substituting Japan as “a factory of the world”; <sup>1</sup>China should increase the undervalued currency, which exacerbates the recession in Japan.<sup>2</sup> Some other opinions support that Chinese development is an impetus and opportunity to promote Japanese economic recovery.

## **1.2 Export-dominated economic revitalization**

Recently, The Japanese economy has presented a sustaining and slow recovering situation, getting rid of economic recession gradually. When Japanese economy grew 2.5% in 2003, the government only described prudently that the inclination of economic recovering has emerged. In succession, Japanese economy had continued rising in 2004 and 2005, which helped Japanese public to revive the confidence from a long-term depression. If Japan wants to walk out the shadow of the domestic bubble economy, expansive overseas market can be regarded as a precursory dynamics in recent years, which enhances holistic flexibility of Japanese economy. And according to the economic and financial white paper of Japanese council of ministers in 2003, it summarized that the origin of this Japanese economic recovery was industrial production was driven by the growth of export, characterized by export-dominant. From the statistical data of this report, it indicated the actual GDP (Gross Domestic Production) of Japan in 2002 had gone up 0.1%. Although the investment of civilian

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<sup>1</sup> C.H.Kwan (April 2002), “Overcoming Japan’s “China Syndrome” (presentation at the RIETI International Symposium on “Asian Economic Integration,” on April 22-23, 2002), Page: 2.

<sup>2</sup> A popular standpoint blames China’s export deflation in Japan since the end of 2002.

enterprises declined 0.8%, the main contribution was the trade of goods and services, increasing 0.9%, which illuminated overseas demanding had an important effect on the whole economic recovering in Japan. In the first quarter of 2003, the contributive percentage of export to the actual 2.9% GDP increasing was 1.3. In the second quarter, GDP of Japanese economy had ascended 3%, the export proportion of which was 0.7%. It illustrates that the growth of export also keeps a high dragged dynamics to drive Japanese economy.

### **1.3 Sharp increasing of export to China**

Concretely speaking, corresponding to trade statistics data of Japanese financial ministry, the total amount of Japanese export in 2001 had reached 48.97 thousand billion Yen. Next year, the total amount in 2002 climbed up to 52.1 thousand billion Yen, increasing 6.39%. Indeed, the high rise of export was in forceful favor of Japan to overcome economic recession in 2002. Moreover, in the total rising rate of export in 2002, Japanese export to China increases 32.3%, to US went up 1.1%, to Europe decreased 1.89%. And the proportion of export to US, the first output country of Japan, reduced from 30% to 28.54%. Export to EU (European Union), the second output area of Japan, descended from 16% to 14.71%, however, the percentage of export to China, and the third output country, increased from 7.68% to 9.56%. Obviously, Chinese market acted as the most contributive role to support Japanese export elevate 6.9% in 2002. Although there were some international factors which had disadvantageous influence on Japanese export in 2003, for instance, appreciation of Japanese Yen, global infection of SARS, Japanese export still had mounted up 4.71%, of which 3.18% came from China, EU contributed 1.32%, whereas export to US declined 2.8%. It can be observed that the share of Intra-East Asian trade in Japanese overall export has the highest growth rate. Especially, export to China had increased 33.3% sharply in 2003. Tsugami Toshiya, a senior research of Japanese RIETI (Research Institution of Economy, Trade and Industry) during July 2002 to April 2004, described a special phenomenon in current Japanese economy in his

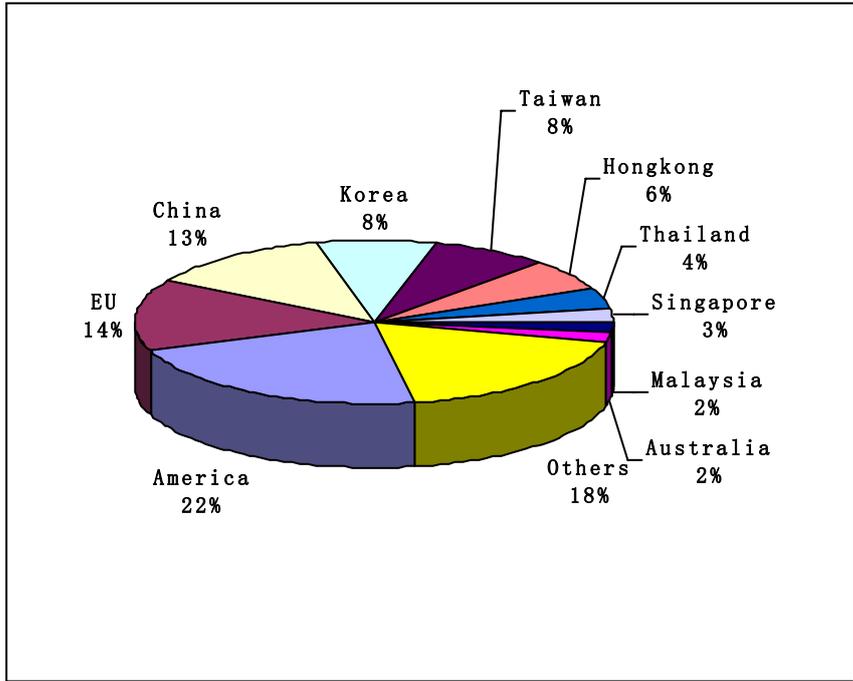
article. He pointed that it had doubled export to China in three years, from 2000 to 2003. Japanese various fields gained benefits from Chinese economic development, including raw and processed material industry, consumptive material industry, and otherwise. And he anticipated the gross export to China and Hong Kong would surpass US in the near future. Japanese economy had involved into “Chinese special demand” situation.<sup>3</sup> Sequentially, the trade statistics report of 2004 pronounced by Japanese financial ministry on January 26 in 2005 declared that the total amount of Japan-China trade in 2004 (including Hong Kong) had increased 17.99%, up to 22.2 thousand billion Yen and occupying 20.1% of total Japanese foreign trade, which had exceeded 20.48 thousand billion Yen of trade between Japan and US. The growth rate of export to China arrived at amazing 29%. Japanese government emphasized that it was epochal that the largest trade partner of Japan had transferred from US to China. In the February of 2006, Japanese External Trade Organization proclaimed that, comparing to 2004, the total trade amount between Japan and China raised 12.7%, and the growth rate of export to China was slower in 2005, which was attributed to export descending of mechanical and electronic productions, begotten by Japanese enterprises to transfer the product line to China, but still achieved 8.9%. And the substantive profits that had earned from favorable balance in trade with China ascended to a new peak—80.4 billion US dollars. Presently, China had occupied 13.1 percentage of entire Japanese export.

We can discover that export growth is the direct traction of Japanese economic recovering through above data analysis. Especially, contribution of Chinese market is most prominent.

Diagram 1: the main export trade partners of Japan in 1st quarter 2005

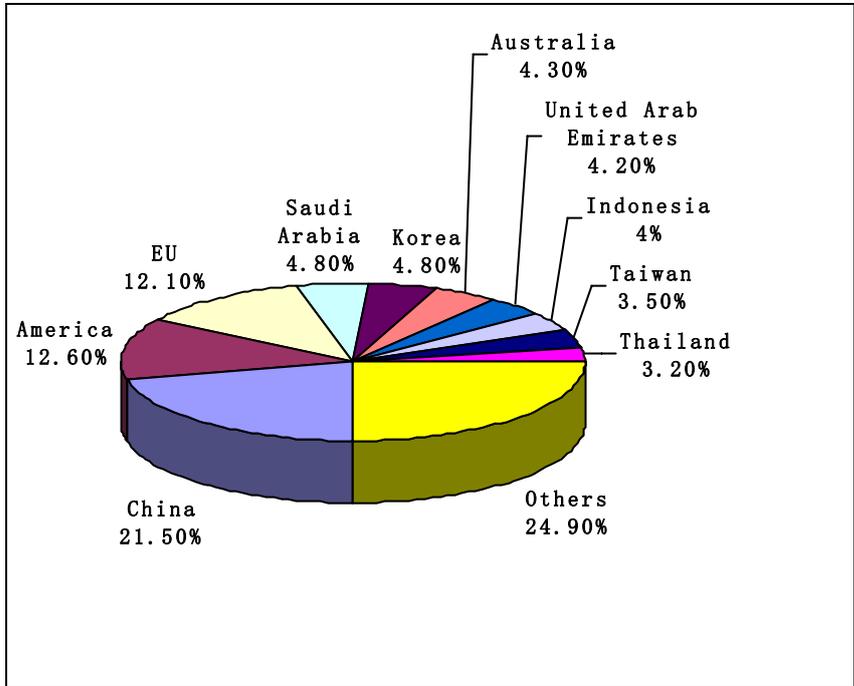
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<sup>3</sup> Tsugami Toshiya (2003), “Sharp growth of export to China shows what?” (Dec 9, 2003) Page: 1.



Source: Statistical data from Japan Custom (Jan.2005-Mar.2005)

Diagram 2: the main import trade partners of Japan in 1st quarter 2005



Source: Statistical data from Japan Custom (Jan.2005-Mar.2005)

From above two tables, we can observe that China has been the third export and the

first import trade partner of Japan, occupying 13% and 21.5% of total amount respectively. Thus, some standpoints indicate that Japanese economic revival relied on China heavily, which has complicated significance for Japan. On the one hand, with the improvement of economic interdependence between Japan and China, it is definite to rouse Japanese economic recovering that China has achieved a robust growth in recent years. And it has changed a long-term feature of Japanese economy, under the simplex umbrella of America. Richard Jerram, an economist for ING Financial Markets, wrote, "*China remains the source of most of the export growth,*" "*Japan's dependence on the U.S. has just been replaced by a broader dependence on China and the U.S.*"<sup>4</sup> On the other hand, it is worried that the rise of China may strengthen the competition between Japan and China in the global market. However, most Japanese businessmen still consider China as an opportunity rather than a threat in current economic situation. The overlap section of industrial distribution and export production between two countries has occupied a small proportion in the total export of both sides. Moreover, *Japan is a big capital goods exporter, and there is a capital-spending boom going on in China.*<sup>5</sup> According to above data, China's import from Japan has kept on the persistent rise from 2002 to 2005. The high economic growth and bullish demand of China has supplied a towing dynamics to Japanese economic resuscitation.<sup>6</sup> The role of China to Japan is experiencing a transition from a manufacturing center to a sale market.

#### **1.4 The position of China in Japan's external trade and investment**

Nowadays, China acts as a more significant role in the configuration of Japanese overseas market as a trade partner and investment object. After Asian financial crisis in 1998, Japan export to China get back to the high rise way since 1999, characterized by the average growth rate of Japan's export to China quicker than the import from

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<sup>4</sup> JAMES BROOKE, "Japan's Recovering Economy Is Relying Heavily on China", Published: November 21, 2003. Page: 1

<sup>5</sup> James Brooke, "Japan's Recovering Economy Is Relying Heavily on China", Published on New York Times: November 21, 2003.

<sup>6</sup> Yan Zhu. 2004, FRI Research Report Series, No.200, The Economic Impact of China's Fast Growth on the Japanese Economy".

China, which dwindles Japanese trade deficit with China from the zenith in 2001 fleetly. It is the traction for Japanese economic revitalization since 2003 that sharp rise of Japan's export to China supplies an extremely large market external demanding of Japanese economy. With respect to the transitional end of China's accession to WTO in the near future, it will be in favor of broadening Japan export to China. Japan exports abundant capital to China, establishing companies and factories, which is the good outlet for Japanese surplus funds and achieve rich returns. On the other side, it also enlarges the employment market and improves people's income in China. Now, the population working in the Japanese company in China has exceeded 1million. Dependent on the Japan's external direct investment questionnaire of JBIC (Japan bank for international cooperation), there is 71.2 percent of respondent Japanese enterprises express they would like to enlarge and intensify the business scale in China, regarding China as a momentous market and produce base.<sup>7</sup> Large numbers of Japanese MNC (Multinational Corporation) import raw materials form Japan, process them in China, then sale the finished products back to Japan or other oversea market. It is a truth that the growth of Japanese export and investment to China is an impetus for Japanese economic recovering. Form 2001 to 2004, the bilateral trade between Japan and Chinese mainland rise from 10800 billion Yen to 19000 billion Yen, increasing a percentage of 76.3 and accounting for 17.2 percent of overall Japanese external trade in 2004. At the same year of 2004, China (Including Hong Kong) in trade with Japan, which arrives at 22000 billion Yen, transcends the trade between Japan and US, ascending to the largest trade partner of Japan. The amount of Sino-Japanese trade in 2004 has been 7.3 times than fourteen years ago of 1990. Besides, be a contrast to simultaneous 7.2 percent falling rate of the entire Japan's FDI, the average growth rate of Japan's direct investment in China is a percentage of 46.3 during the four years from 2001 to 2004, and the percentage of China in total Japan's external direct investment climbs up from 0.6 in 1990 to 12.8 in 2004, jumping

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<sup>7</sup> Survey Report on Overseas Business Operations by Japanese Manufacturing Companies— Results of JBIC FY 2005 Survey: Outlook for Japanese Foreign Direct Investment (17th Annual Survey), November 2005, Page:5.

to the third largest destination of Japan's FDI (Foreign Direct Investment). According to the new annual report of JETRO (Japan External Trade Organization), in 2005, total amount of Japan in trade with Chinese mainland is up to 189.3 billion US dollar, increasing a percentage of 12.7 than 2004; Japan's direct investment to China gains 6.53 US billion dollars, continually going up a percentage of 19.8 than last year and coming into possession of more than 15 percent of overall Japanese oversea investment, a new record.

## **1.5 Producing base and sale market**

### **1.5.1 Manufacturing center and processing trade**

It has a tight trade and investment relationship between Japan and China. There are two principal styles of Japanese enterprises operation in China. First, some Japanese companies invest in establishment of productive base in China through transferring product line, which can utilize low-cost resource of China, such as some raw material of production, rich human resource, actualizing preponderant capital diversion.<sup>8</sup> Accompanying with shifting manufacture equipments and components from Japan to China, the majority productions of this investment type are sold to Japanese overseas market or back to parent companies in Japan, which is also a typical demonstration of export in the name of China, beneficial to drive the increasing of Chinese import and export apparently. Actually, a large proportion of Japan-China trade belongs to processing trade or interior trade of Japanese enterprises. During the period of 2005 regional summer program in Waseda University, when I was visiting to Akihabara electronic town in Tokyo, I found large-proportion products of Japanese famous electronic and digital brands is marked by the sign "made in China", which reflects a prevalent phenomenon in Japan that Japanese brands is sold in Japanese market but is Chinese manufacture.<sup>9</sup> And Japan's detouring export in virtue of China alleviates the trade conflicts between Japan and US, which are drastic in the 1980s and 1990s, induced by the vast surplus Japan gain from the trade with US in a long period.

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<sup>8</sup> C.H. Kwan(2001), "The backgroud of "China threat" emergence" ( Sep 10, 2001). Page:1-4.

<sup>9</sup> Interview in Akihabara Electronic Town in Tokyo (July 30, 2005)

American government always implements various foreign trade or sanction measures to compel Japanese Yen to appreciate. However, since large-scale Japanese MNCs transfer the produce base from Japan to China, partial Japanese products export to US through assembly machining in China and disguising as nominal Chinese manufactures, which depress Japanese surplus in trade with US.<sup>10</sup> By contraries, the trade relationship between China and US is more and more unbalanced after entering into 21st century, complaint by US.

Concomitant with the produce base transference of Japanese manufacture industry from Japan to China, although the share of machine products in Chinese export structure become larger and larger, in fact, Japan controls super high-technical and rich-value equipment, raw material and key components delivered to Chinese produce bases, and China only play a manufacture and assembly role in the whole produce process, which reinforce the vertical distribution of produce structure between Japan and China. Moreover, some Japanese enterprise cooperate or affiliate with indigenous Chinese corporations, utilizing local equipments and resources, which is advantageous for Japan to reduce investment costs and hold the predominant position in the competition of Chinese and global market.

### **1.5.2 Truth and outcome of sale market**

Second, as a result of drastic increasing of Chinese internal demanding and accession to WTO, more and more giant Japanese MNC of manufacture industry also regarded China as a consumptive market, not only produce base. In the interest of extending occupancy rate in Chinese market, it is necessary for Japanese enterprises to deepen investment layers. It means that they should intensify technical design in China and output of core production elements to China, covering yielding new technology, advanced equipment and core components rather than disused products lines in domestic Japan, which is also a driving force for Japanese economy. And Japanese

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<sup>10</sup> Liu Junhong (2005), "Sino-Japanese trade surpasses Japan-US: a real lie".  
URL: <http://english.hanban.edu.cn/chinese/OP-c/780467.htm>

technology export prolongs the available cycle of Japanese productive technology. Based on the 2002 fiscal year white paper on Japanese manufacture pronounced by Japan economy and industry ministry in 2003, *China is defined as a sale market for 45 percent of Japanese enterprises, which has no remarkable alteration in five years, whereas a percentage of 40 considering China as a pure yielding base will drop to no more than 20 percent, and the cognition of China as both market and yielding base will ascend from current 10 percent to 40 percent.* But it should be conscious of another aspect that although China has become the largest trade partner of Japan in 2004, total amount of Sino-Japan trade excluding Hong Kong is 18193.3 billion Yen, less than Japan in trade with US. And owing to a large share of processing in Japan-China trade and a small share of local sale in China in overall local yield of Japanese corporations, as a matter of fact, genuine sale scale of Chinese market is not as large as the amount of Japan-China trade, only a quarter of US sale market.<sup>11</sup> In another word, Chinese market influence on Japanese economy shouldn't be overestimated excessively.

Furthermore, Japanese government is reluctant to China make a progress from “made in China” to “design in China” through alluring design groups of Japanese enterprises, not only confined in a role of manufacturing factory of Japanese external trade and investment. The 2004 fiscal year manufacturing white paper of Japan economy and industry ministry indicates that *only a 0.9 percent of Japanese enterprises set up technology design center in China, now, it has climbed up to a percentage of 11.5 and will increase continually*, which promotes the producing distribution between Japan and China to transform from vertical to horizontal.<sup>12</sup> At present, besides preserving top technology in the domestic, Japan is apt to transfer some core-technical investment from China to ASEAN because it is afraid of propping up a mighty competitive opponent. For the sake of maintaining Japanese economic-dominant power, Japanese government would like to adopt dispersed investment, for instance

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<sup>11</sup> C.H. Kwan (2004), “The scale of Chinese market is only a quarter of North American market”, (June 25, 2004), Page: 1-2.

<sup>12</sup> International Business (March,8 2005). URL: <http://www.smexm.gov.cn/2005-3/200538133150.htm>

“China+1”.<sup>13</sup> So that Chinese market is provided with both a strong attraction and underlying opposability to Japan.

## 2. The importance of Chinese market for Japan

### 2.1 The consumptive scale in Chinese market

Why does Chinese market have a tremendous attraction of Japanese enterprises? After 1990s, from the burst of “bubble economy” in Japan to a serious damage of Asian Financial Crisis in 1998, many East and Southeast Asian countries cannot help but slow down the economic developing steps. In the case of these economic predicaments, it is undoubted that high growth rate of Chinese economy has played an assuasive function to regional development. With the enhancement of Chinese economic power, GDP of China has climbed up to the forth in the world, foreign trade of China has been situated at the third in the global trade, the contribution of China has been the second dynamics to global economic growth at present, only behind US. Expect for increasing of overseas demands, the high economic growth rate in China is also supported by the high consumptive demands of domestic Chinese market.

Table 3: change of social consumption and fixed assets investment of China from 2004 to 2005

Index title	2005 (Billion Yuan)	2004 (Billion Yuan)	Increasing Percentage(%)	Increasing Quantity
Total retail amount of social consumption of China	6717.66	5950.1	12.9	767.56
Total amount of fixed assets investment of China	7509.648	5903.811	27.20	1605.837

Source: Statistics Ministry of China 2004-2005

<sup>13</sup> Ye Jianguo(2005), “Japanese government warns Japanese enterprises about investment in China”, Published on China Business, June 25, 2005.

From upper table whose data comes from National Bureau of Statistics of China, the figures points that, comparing to 5950.1 billion Yuan in 2004, total retail amount of social consumption of China in 2005 has gone up 12.9%, coming to a new top 6717.66 billion Yuan. And it is obvious to discover that the rise rate of social consumption of China in 2005 also increases 12.9% in the table. These figures indicate that, flourishing capital investment and consumptive demanding not only is a mainstay of GDP high growth in China, but also it offers a huge market for foreign production, including Japanese commodity. Tremendous consumptive ability of Chinese large market provides the many opportunities, which is the most attractive factor for Japanese exporters to gain more profits from China. Moreover, with continual growth of individual consumption of 1.3 billion populations, China obtains the largest potential market in the world, which can bring substantive profits in the near future. With the development of Chinese economy, the purchasing power of Chinese consumers becomes stronger and stronger, reflecting that consumptive ability of Chinese market still has a climbable perspective. More and more Japanese enterprises define China as consumptive market, not limited in productive base, exporting productions to other countries. Therefore, the adoption of appropriate strategies to enlarge occupied market and explore potential market of China is the crucial task of Japanese enterprises in China.

## **2.2 WTO accession of China benefits Japanese economy**

Besides, WTO (World Trade Organization) accession of China at the end of 2001 has provided more international regulation to China's foreign trade, which is advantageous for China to advance open configuration. The market principle of WTO requests members should reduce tariff, eliminate trade barrier, open market, implement trade liberalization gradually through negotiation. After joining in WTO, China need to open more economic fields, in which China has less competitive ability, but concentrated international investment, such as motorcar industry, finance and insurance, machine and electronic production. And it is the fact that developed

countries containing Japan predominate in these fields, which encourage them invest more in Chinese market. Under the restriction of information technology agreement of WTO, it should carry out Zero-tariff items, which creates a more ascendant investment atmosphere and intensify technical advantages for foreign high-technology enterprises. In the trade with China, technology-dominant productions have occupied the great mass of Japan's export, which is beneficial for Japanese products to broaden Chinese market share after China accession to WTO, which also improve the import and export environment for Japanese enterprises in China and promote the free trade between Japan and China.<sup>14</sup>

Synthetically speaking, China's accession to WTO broaden the open extent of Chinese market, favorable for Japanese enterprises in China to enlarge productive scale, which results in vast import of equipments, raw materials and accessories from Japan. However, it is the essential reason for China to import large number of goods from Japan that the internal and external demanding of large Chinese market grows rapidly in the process of Chinese economic high growth, stimulating economic recovering in Japan. In faith, China has played an increasingly important role of consumptive market for Japan, but we should give our attention to another aspect that Japanese export to China still includes a mass of processing trade. Thus, *comparing the local production and sale of Japanese enterprises between China and US, the actual scale of Chinese market to Japan is much smaller than US.*<sup>15</sup>

### **3. Japanese FTA strategy in East Asia and its influence on Japan-China economic relationship**

#### **3.1 FTA in global regionalization**

At present, there are two main trends in global economic development—globalization

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<sup>14</sup> Yang, Liuyong (2002), "Research on utilizing foreign capital in the process of Chinese marketization". Page: 39-43.

<sup>15</sup> C.H. Kwan (2004), "The scale of Chinese market is only a quarter of North American market", (June 25, 2004), Page: 1-2.

and regionalization. Economic interdependence in the process of globalization is increasing gradually, which is advantaged to improve productive efficiency and resource allocation through economic cooperation between different countries. With the fast development of world economic globalization promoted by trade liberalization, produce internationalization, economic integration and technical revolution in telecommunication and transportation, the number of WTO members increases sharply in recent year, arriving at 149 until the end of 2005. Nevertheless, owing to the large discrepancy of productivity level and economic configuration among different countries and areas, it is difficult to establish a global multilateral trade system. <sup>16</sup>Thereby, on account of geographical and economic tightness, some adjacent countries and areas buildup a regional institution or nation alliance in order to form the common trade market of commodity and productive elements through regional economic cooperation to increase market access in member countries, impelling the upsurge of regional integration and maintaining the common benefits of regional members. And foundation of free trade areas is the main form of regionalization, for instance, EU (Europe Union), NAFTA (North America Free Trade Area).

### **3.2 Requirements of Japan's FTA strategy**

Nowadays, global economy can be divided into three leading areas--Europe, North America and East Asia. However, by contrast with Europe and North America, there is still a lack of a substantive institution of regional economic cooperation in East Asia to regulate economic system of local countries, which debases international competitive and risk-resistant ability of East Asian countries. According to Pro. Shujiro Urata's lecture of special course in Waseda University, in the process of globalization, it is also easy to expand economic crisis and exacerbate developmental

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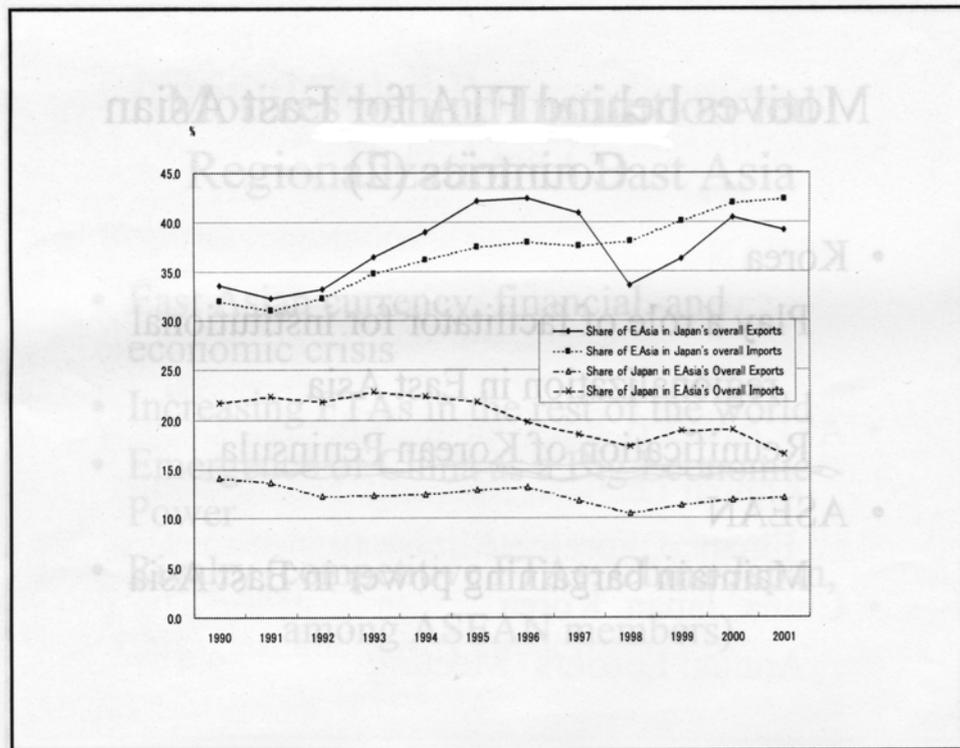
<sup>16</sup> Shuqin Ma (2005), "Bilateral FTA Development in Asia & China's Policy Choice", Aug. 2005, Volume 4, No.8 (Serial No.26) *China-USA Business Review*, ISSN 1537-1514, USA. Page: 1-3.

inequality in the worldwide, which requires East Asian countries reinforce regional cooperation against global economic venture. So he points that institution-led regionalization has developed so fast in East Asia recently, such as APEC (The Asia-Pacific Economic Cooperation), ASEAN (Association of Southeast Asian Nations). And intra-East Asian trade is more and more important in total Japanese foreign trade, improving the economic interdependence between Japan and surrounding areas. Especially, Japanese economy was suffered a strike in the case of the rapid spread of Southeast Asian financial crisis in 1998 in the whole Asia, which also reminds Japan should strengthen the economic cooperation with other East Asian countries. Now, it is active for Japan to implement FTA (Free Trade Agreement) strategy in East Asia, expanding economic collaborator and market access, for example, Japan-Singapore EPA (Economic Partnership Agreement), and ASEAN+Japan.<sup>17</sup>

Table 4: changing importance of trade between Japan and East Asian from 1990 to 2001

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<sup>17</sup> The summary of Pro. Shujiro Urata's lecture in the regional course in Waseda University.



Source: Japanese financial ministry 《Trade Statistic》 1990-2001

Table 5 changing importance of trade between Japan and East Asia from 2000 to 2004

	Total amount of trade with East Asia (billion \$)	Percentage of East Asian in Japan's overall import and export	Export to East Asia (billion \$)	Percentage of East Asian in Japan's overall export	Import from East Asia (billion \$)	Percentage of East Asian in Japan's overall import
2000	341.7	39.6	190.9	39.7	150.8	39.6
2001	297.9	39.4	156.6	38.7	152.9	40.3
2002	312.4	41.5	173.0	41.6	139.4	41.4
2003	372.6	43.8	210.9	44.9	161.7	42.4
2004	460.7	45.2	264.8	46.9	195.9	43.1

Source: Japanese financial ministry 《Trade Statistic》 2000-2005

The figures in the table make clear that the both share of East Asia in Japanese overall exports and imports exceeding 40 percent from 2002 has increased continually from

1990 to 2004, except in 1998 as a result of financial crisis. And, withal, East Asia has attracted mass Japanese investment. Total oversea direct investment of Japan in 2004 is 30.96 billion US dollars, 34 percent of which was distributed to East Asia. And Japanese investment in China has reached 5.87 billion US dollars, more than any other East Asian country.

### **3.3 China in Japan's FTA strategy**

It has existed the high economic independence between Japan and other East Asian country, especially among Japan, Korea, China and ASEAN. Everyone is one of the most important trade partners with each other. Japan and Korea are advantageous in capital and technology, China and ASEAN has been the significant produce base and market of Japan and Korea. There is a strong trade complementarity between Japan, Korea and China, ASEAN. China has become the largest trade partner of Japan in 2004. Japan is the first and the second trade partner of ASEAN and Korea respectively. And the amount of Japan in trade with China, Korea and ASEAN has occupied more than 30 percent of overall Japanese import and export. So it is necessary to establish an effective and consistent economic organization in East Asia to drive regional cooperative integration and intra-regional trade. China has subscribed the FTA (Free Trade Agreement) with ASEAN in November of 2004, and then it also made the same terms between Japan and ASEAN in 2005, which resulted in ASEAN+1 situation (ASEAN+Japan or ASEAN+China). At present, it should strive for promoting ASEAN+1 grow to ASEAN + 3(ASEAN + Japan, China, Korea), suitable for the current fast development of intra--East Asian trade cooperation.<sup>18</sup> And the target of ASEAN + 3 is building up a uniform free trade area and facilitate economic integration in East Asia.

Both Japan and China can be regarded as the most powerful economic entities in East Asia, possessing 83 percent of entire East Asian GDP. And it is undeniable that

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<sup>18</sup> Yuge Zhang(2006), "Regional economic integration in East Asia-Summarizing 9<sup>th</sup> East Asian Economic Cooperation Forum". Published on the first period of China Opening Herald in 2006, Page: 73-77.

growing demands of Chinese market is an outstanding dynamics for Japan to cast off economic downturn recently. In the case of current high economic growth in China and Japanese economic recovering, if Japan make a free trade agreement with China under the guidance of Japanese FTA strategy, it will not only promote regional economic integration of East Asia and enhance the global competitive ability of entire East Asian area, but also it will consolidate East Asian distribution-vertical produce system dominated by Japan, favorable for Japan to catch hold of first-mover advantage before competition with EU and US in East Asian market,<sup>19</sup> beneficial to accelerate the steps of Japanese economic revitalization.

Majority Japanese businessmen express their supports to constitute a free trade area among Japan, Korea, China and ASEAN. Professor Lim Hua Sing of Waseda University Institution of Asia-Pacific Studies indicates that, there are two factors to stimulate the endeavor of economic integration in East Asia. One is the buildup of EU and NAFTA restricts the East Asian economic growth. Another is aiming at exploit trade market. Although China is the opponent of Japan, they should collaborate on prompting Asian economic development and maintain common benefits.

## **4. Rivalry, mutual Complementarity in the new situation of Japan-China trade**

### **4.1 New alteration in Japan-China trade**

In the process of economic globalization and regional integration, the fast growth of bilateral trade between Japan and China has upgraded economic interdependence level. Now, numerous Japanese brands are known widely in China, especially in digital and electronic field. Japan's export of home digital production to China in 2003 had gone up 230% than 2002. During my visitation to Akihabra electronic town in Tokyo, it was the deepest impression that every store Chinese marked the obvious

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<sup>19</sup> Yue, JianYong (2005), "ASEAN + China + Japan trade integration and its influence on the power structure in East Asia" Page: 1-6

sign-- “Welcome Chinese Tourists” and supplied special shopping guidance service in Chinese. Majority of surrounding crowd were Chinese tourists. It seems to like a Chinese commercial center in Tokyo. Then, I held a small questionnaire survey, interviewing some shopkeepers and Chinese tourists. A percentage of 82.6 in Chinese tourist respondents were very interested in Japanese digital productions, particularly in DC, DV and notebook computer field. 78.1 percent of Japanese shopkeepers identified that Chinese market was a forceful attraction for Japan. Observing the answers of all 37 respondents, a percentage of 73.5 approved that China was a dynamics to promote Japanese economic recovering, and only a percentage of 20.3 thought high economic growth of China would harm Japanese benefits in the future.<sup>20</sup> Thus, it can be seen the excellent interspace and prospect of Japan-China economic cooperation. Besides, masses of Japanese enterprise remove producing bases to China. Both rising demands of Chinese market and transference of producing base are the powerful impetus to boost Japanese manufacturing revival.

Synchronously, there are some new changes emerged in Japan-China trade lately. It is undoubted that the sharp increasing of Japan's export to China makes a great contribution to facilitate Japanese economic revitalization, which strengthens the importance of Chinese market for Japan. China (include Hong Kong) has retained the largest trade partner of Japan in 2005 since exceeding US in 2004, arriving at 26045.5 billion Yen. Japanese adverse balance in trade with China (include Hong Kong) cut down rapidly from 2002, and Japan gain the first favorable balance in February 2004 since 1995. China has been the second largest export market of Japan since 2001, only behind US, and in the following 2002, the import from China transcends US as the number one of Japan in 2002, continuing to ascend to 19.7 percent of overall Japanese export. So the area structure of Japanese external trade is undergoing a transformation, decreasing the dependence on US in some extent. According to the calculation of JETRO, the rare of Japanese economy relying on China heighten from 0.2% in 1990

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<sup>20</sup> Questionnaire survey in Akihabara electronic town and Interview with shopkeepers and tourists on July 31, 2005.

to 1.5% in 2003. Contrarily, the percentage of Japan in overall China's external trade declines from 22.4 in 1980 to 15.7 in 2003. And the enlarged EU had replaced Japan as the largest trade partner of China in 2004. Japan retrograded from number one to number three at same time, also overtaken by US. As an export market of China, Japan drops from the second to the fourth, behind US, Hong Kong and EU, about 10 percent of overall Chinese export in 2005. Although Japan is still the largest export source of China, the proportion of Japan in overall Chinese import descends constantly, reducing to a percentage of 15.3 in 2005. Presently, China export to US is about 1.5 times of Japan. All of these changes leads that a percentage of China relying on Japan falls from 1% to 0.3%.<sup>21</sup>

## **4.2 Complementarity rather than rivalry**

With the new tendency of Japan-China economic relationship, Japan is more worried that China will grow up to a formidable antagonist in the near future. Some views mention that Japanese enterprises invest plentiful capitals in China to establish producing base, emptying the domestic industry, which forces a mass of small and medium enterprises to bankruptcy. And lots of cheap Chinese commodities swarm into Japan, engendering a menace of many domestic corporations, especially in agricultural productions, textile goods. 70 percent of Japan's import textile comes from China. Judging in this way, Chinese economic miracle has a negative effect on Japanese deflation, originating from competing with outputting Chinese products. But we can discover that the scale of Japanese investment in China only account for a tiny segment of Japanese domestic capital, not arousing the abasement of internal effective investment of Japan. The deficiency of domestic demands is the basic reason for unemployment in Japan. Looking on the domestic market in Japan, Japan's import from China concentrates on primary products and light industry, and the total amount only occupy 5 percent of Japanese GDP. Moreover, some Japanese people think Japan's deflation is caused by low-price Chinese export. They fear that "made in

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<sup>21</sup> Shang Ming (2005), "The new alteration of China-Japan interdependent relationship", published on 2<sup>nd</sup> period of China Foreign Capital in 2005.

China” will substitute Japanese products, not only in Japanese internal market, but also in international market. On the one hand, deflation depresses the export price and has a disadvantageous influence on Japanese economy. On another hand, it also reduces producing cost of Japanese industry, as a result of low-price materials and accessories importing from China.<sup>22</sup> Although a percentage of competitive products in total Japanese and Chinese export ascends from 3% in 1990 to 16% in 2000, overlapping rate is still lower than the rate between Japan and other countries. Analyzing from global market, 70.3 percent of China’s export to US, Japan and EU belongs to low-profit and labor-intensive products, such as processing trade, most of which belongs to foreign companies in China, taking up half of Chinese export. And the main part of Japanese export is high technology and capital-intensive products. *According to the analysis of C.H.Kwan (a senior researcher of RIETI), the competitive rate of 10000 industrial products in US market importing from Japan and China in 2002 is a percentage of 20.5, far lower than a percentage of 41.1 between China and Korea, a percentage of 64.4 between China and Hong Kong and a percentage of 76.1 between China and Thailand.*<sup>23</sup> Actually, the competition of export commodity structure between Japan and China is weak. Therefore, the depreciation of RMB (Chinese Yuan) and the rise of China is not the essential reason for Japanese deflation.

Comparing Japan with China from economic structure, Japan has abundant capital, advanced technology, mature market and management system, in defect of resource and market. China holds rich labor, resource and wide market, lacking technology and capital. The cost of labor in China is only 5 percent of Japan. As Japan and China locate different developmental phases, the demanding and supplying configuration of two countries is disparate. Economic relationship between Japan and China is more complementary than competitive, so that Sino-Japanese economic cooperation is

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<sup>22</sup> C.H.Kwan (2004), “ View collection of China’s export deflation and inflation”.

URL: <http://www.rieti.go.jp/users/kan-si-yu/cn/c040721.html>

<sup>23</sup> C.H.Kwan (2001), “Mutual complementary Japan-China relationship-demonstrating through the analysis of US import industrial products”. URL: <http://www.rieti.go.jp/users/kan-si-yu/cn/c011214.html>

beneficial to debase productive cost and optimize resource distribution. China's export to Japan is dominated by labor-intensive electric products, textile, food and processing trade, whereas capital-intensive electronic products and technology-intensive mechanical equipments are the main components of Japan's export to China, such as LCD (Liquid Crystal Display) television, car and digital goods. For instance, mineral, agricultural and textile products possess more than 43 percent of China's export to Japan in 2004. At the same year, China imports 65.1 billion US dollars mechanical and electronic production, accounting for a percentage of 69 in overall import from Japan. Japan-China trade and investment enlarges the international market of Japanese products, profitable space of Japanese corporations, the transferring direction of Japanese industry. China offers commercial opportunities, rich and low-cost intelligent resource for Japanese companies, which engage more than 9.2 million Chinese people and pay 49 billion Yuan tax in 2004. Japanese investor also gains fat profits from Chinese high growth. No matter observing from international producing division, industrial distribution or the structure of export and import, current trade and economic cooperation between Japan and China is favorable for reciprocal and mutual benefits through exerting respective superiority, promoting industrial complementarity and Japanese economic revival. China and Japan are associates rather than rivals

## **5. Political, commercial and academic attitude of Chinese market in Japan**

### **5.1 Cold politics**

There are some diverse attitudes toward Sino-Japanese economic relationship among political, commercial and academic fields. From the medium period of 1990s, a peculiar phenomenon emerges between Japan and China of the coexistence of the political cold and economic hot. <sup>24</sup>It means the political relationship is plunged into

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23. Manabu Takamisawa (2004), "Cold Politics, Hot Economy and the Way in Which We View the Sino-Japanese Economy", Page: 1-2.

icy period. However, contrast to politics, the trade and economic collaboration become more and more chummy.

Recently, fewer and fewer high layer politicians communicate with each other between Japan and China. The government implement impertinent political behavior or speak improper words, hurting one another national sensibility and benefits. It is the ultimate reason of the political predicament between Japan and China that Chinese government censure that Japanese leaders adopt irresponsible words and deeds of historic and Taiwan problems. Particularly, Japanese Prime Minister Junichiro Koizumi insists on visiting Yasukuni Shrine every year since appointed in 2001, to pay homage to dead soldiers and war criminals in World War II, which injure Chinese people's feeling severely. China lodge a remonstrance for Japanese government time after time, but Japan has no any positive response, which leads exchange visitation of two states' chiefs can't be actualized in recent years. And Japanese government believes that China can't terminate the economic cooperation with Japan owing to visiting Yasukuni Shrine. And Japanese government admit the revision of new Japanese history textbook, which disavows Nanjing Massacre and aggressive actions, introduce Taiwan is out of Chinese reign in history. Withal, there is an opposite divergence of ruling Fishing Island and Japanese application for UNSC permanent membership. These collisions incur anti-Japan sentiment is more and more furious in domestic society of China. In April of 2005, some big cities of China burst out large-scale anti-Japan demonstrations and campaign of rejecting Japanese products, such as Beijing, Shanghai, Guangzhou and Shenzhen, spreading rapidly to the countrywide, which has an obstructive effect on the sale of Japanese products in China.

It appears that cold political situation also extend to economic field gradually. For example, increasing speed of Sino-Japanese trade is lower obviously than overage rate of overall Chinese external trade in recent years, and the share of Japan drops gradually from the first 16.4% in 2002 to the third 13.0% in 2005; Japan's export to

China in 2005 is a percentage of 10.6, lower than 20.5 percent of last year and US, EU. Meanwhile, it also makes a difficult in Japan-China economic cooperation that Japanese economic assistance attaches more political requests. For instance, comparing to 2000, Japan's ODA (Official Developmental Assistance) to China in 2003 descends more than a half, by the reason of Japanese financial tension, China's rise and political contradictions. It is possible to depress Japanese preponderance in the competition with other developed country in Chinese market. Japanese government reminds Japanese enterprises should be careful of the negative facets of Chinese economy in order to decrease Chinese market heat. The 2004 manufacturing white paper of Japan's economy and industry ministry warn that *Japanese enterprises will be more difficult to earn back investment cost or lose benefits. Chinese market will not be the engine of Japanese economic growth.*

Indeed, we can't predicate Japan-China economic cooperation is also trapped into a temperature-falling phase, but national opposition and hostile feeling will keep on deteriorating, it may leads to shrink the economic profits of Japanese enterprises in China, disadvantageous for both Japan to realize sustainable economic recovering and Chinese high growth. According to the newest report, the ministry of foreign affairs of Japan set up Japan-China economic room in April 2006, in charge of economic relationship affairs between Japan and China.<sup>25</sup> Japanese government has realized cold politics has played a harmful function on Japan-China economic and trade linkage. And Japan look forward to separating politics and economy in the relationship with China, preventing the phenomenon of "cold economy" caused by "cold politics".

## **5.2 Hot economy**

Contrarily, Japan-China trade and economic cooperation still keep fiery-hot in Japanese economic field, supported and promoted by most Japanese companies,

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<sup>25</sup> Yongsheng Zhou(2006), "Establishment of Japan-China economic room say what?"  
URL: <http://www.nfcmag.com/ReadNews.asp?NewsID=4756>

which are densely interested in Chinese market. Although some small Japanese enterprises express they will be cautious to invest in China, most giant Japan MNCs, which have no positive response to Japanese government's proposals, continue increasing capital investment in China in recent years, not only to establish producing bases, even transferring design center to China. Cold politics is extremely serious in 2005, while Japan's investment in China rise energetically to startling 6.53 billion US dollars, more than 19.8 percent of last year and being 2.24 times as 2000. At present, more than 80 percent of Japanese enterprises investing in China are in the profitable status. The average rise of Japan-China trade from 2001 to 2004 is a percentage of 22.1 annually, far higher than average 4.6 percent of Japanese external trade. And China has taken place of US as the largest trade partner of Japan since 2004. Even after the burst of anti-Japan movement in China, in accordance with the investigation of Japan's economic news in April of 2005, Japanese enterprises still maintain calm attitude to the trade with China, no reflection of withdrawing from China. A percentage of 63.8 in respondent Japanese enterprises give voice to enlarge development with discretion dependent on the state. The view positively in China is sustained by a percentage of 12.3. The government of both countries should implement felicitous measures to conform the appeals from economic scopes.

### **5.3 Diverse academic views in Japan**

In academic field, diversified standpoints of Japanese scholars are in discussion, no matter "China threat" or "China special demanding" or "Utilizing China", which analyze the positive and negative aspects of Chinese market to Japan and compare which side is dominant in current Japan-China economic relationship. For example, Tisugami Toshiya, a senior research of Japanese RIETI Professor, considers that Japan is relying on the "Chinese blessing"; high growth of Japan's export to China is the significant force for Japanese economic revival. Lim Hua Sing of Waseda University Institution of Asia-Pacific Studies deems that Chinese economic strength shouldn't be magnified. There are still many defects in Chinese open and reformation. However,

some successful features and advantageous conditions of China deserve Japan to consult and utilize, such as careful financial strategies. He maintains that although China is the adversary of Japan, two countries should cooperate closely with each other in order to Asian development and holistic benefits in the domestic. C.H.Kwan, a senior researcher of RIETI, thinks Japan should recognize that is more complementary rather than competitive, and it is no necessary to aggrandize the influence of Chinese market on Japanese economy, China is not the origin of Japanese deflation, overcoming Chinese syndrome. Shujiro Urata, Professor at Waseda University, agree that strong economic performance of China is one of reasons for Japan to recover from the long recession. He writes *“Having reached the highest level of economic development, Japan needs a close relationship with China for its won sake, since the latter’s overflowing dynamism can help Japan keep its economic vigor fueled and its living standard improving”*.<sup>26</sup>

Consequently speaking, politically, Japan complains that China blames and entangles Japanese historic problems excessively; China criticizes that Japanese government deny historic truth and defy Chinese dominion repeatedly, disrespecting Chinese people. Some critiques indicate that Japan and China are so hard to be friends. However, economically, although Japan is unwilling to see China rise to a strong economic power in East Asia, competing with Japan in regional and global market, two countries still have much common benefits. Even if the majority of Japanese posture to China is complicated currently, they still desire both sides of Japan and China should intensify cooperation and abandon rivalry, striving for mutual progress and stability.

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<sup>26</sup> Shujiro Urata (2004), “Japan, China and South Korea have much to gain from regional partnership accord Trilateral economic pact expected to propel both competition and cooperation, Infrastructure building to be facilitated and growth spurred”, Page: 2.

## **6. Sony and other Japanese enterprises in China**

During Japanese economic downturn since the early 1990s, the demanding of the domestic market of Japan was declining and the main oversea market of Japan-US and Europe was inclined to saturation in some extent, most large Japanese manufacturers were entangled into a loss, such as Toshiba, NEC, HITACHI and otherwise. It is necessary for them to explore more expansive market. Upon that Japanese enterprises swarm into the sharply rising Chinese market, considering China not only as processing base, but also as consumptive market and design center. <sup>27</sup>Practically and concretely speaking, the real experience of Japanese enterprises in China is a potent attestation to reflect the effect of China in Japanese economic revival in recent years.

### **6.1 Sony in China**

Sony Corporation is a typical representation of famous Japanese MNCs. Hereinafter, I will describe the development of Sony operating system in China, discuss its strategy transformation, and analyze the role of expanding Chinese market in the entire operation of Sony. Sony (China) Limited Corporation was established in Beijing in 1996 as a head organization in China to supervise and coordinate internal operation in China. Until 2005, Sony in China has invested more than 1-billion US dollars, buildup six large-scale producing enterprises in Shanghai, Wuxi, Suzhou, Huizhou and so forth, and engaged 20 thousand stuffs aggregately since entering into Chinese market in 1978. At present, China is the third largest market of Sony, more importance as a sale market. And the yielding amount of Sony in China has achieved 1000 billion Yen, occupying 25 percent of total producing system. However, the global sales and profits shrink severely after stepping into 21 century. The burst of IT bubble economy in Japan also has a negative effect on Sony in 2001, when Sony Corporation encountered the first loss of money in electronic department .The profit margin of electronic products of Sony Corporation dropped to about a percentage of 1

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<sup>27</sup> George Zhibin Gu (2005), "Japan Inc in China". URL: <http://www.atimes.com/atimes/Japan/GD23Dh03.html>

in 2003. And the net profits of 2003 fiscal year are 88.51 billion Yen, falling 23.4 percent of 2002. In 2004, profit margin of Sony is only a percentage of 1.32, still at an extremely low level, wandering at the verge of losing money in business from time to time. In the fourth quarter of 2004 fiscal year, the loss of Sony ascended from 0.36 billion US dollars in the same term of 2003 to 0.53 US dollars. Although the operating profit increased a percentage of 68 in 2005, the net profit still reduced a percentage of 24.5%. The electronic department of Sony has been involved in a loss for three years from 2003 to 2005. Thereby, in order to get rid of the running embarrassment in the worldwide, Sir Howard Stringer, the chairman and CEO (chief executive officer) of Sony (appointed in Jun, 2005), decided to reform global strategies, which emphasizes on three core field of Sony—electron, game and entertainment. *In September 22 of 2005, Sony declared “weight reducing program” that it will dismiss 10000 staffs in global extension before 2008, comprised by 4000 in Japan and 6000 in other places of the world, and Sony will curtail 15 business units and 11 manufacturing factories, which aims at reduce 200 billion Yen cost until 2007.*<sup>28</sup> But Howard Stringer who knew that it is requisite that Sony have regard for rising Chinese market, not only dependent on EU and US market, so as to get out of current troubles, expressed definitely that the reformation of the whole enterprise wouldn't impact on the rising Chinese market. In 2005, Sony in China has increased 5000 employees. In 2006, Sony will add 0.2 billion US dollars investment in China and recruit more staffs continually, which demonstrates that Sony thirst for finding a renascent opportunity and traction in Chinese market urgently.

In contrast to the depressed global market of Sony, the growth rate of sale amount in China always exceeds a percentage of 50 since 2003. Next, I will show a set of statistical data about Sony in recent years. The sale of Sony in China is approaching 1 billion US dollar in 2001 fiscal year (ending at March 31, 2002), only accounting for

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<sup>28</sup> Sony to slash 10,000 jobs globally cut 15 business units.

URL:

<http://broadcastengineering.com/newsletters/bth/20050925/Sony-Electronics-20050925/index.html>

3 percent of global income of Sony. In the fiscal year of 2002, Sony has achieved 1 billion US dollars in China. However, in the following years, this number increases drastically. Sony gains 1.7 billion US dollars from Chinese market in 2003, climbing up a percentage of 70. In fiscal year 2004, the rising percentage of the local sale of Sony is close to astonishing 80, catalyzing that total amount in China goes up to 3.0 billion US dollars unceasingly. And 30 percent of DC and 50 percent of DV in Chinese market are in possession of Sony. In next 2005, only in the digital and electronic fields, China has consumed more than 4.0 billion US dollars Sony products. Discovering from above figures, the achievement in China is outstanding in the case of global business downgrade and increasingly competitive Chinese market, which impels high-ranking managers of Sony to persist in a determination that it will exalt China to a center and engine of East Asian market growth.

In these years, Sony adjusts operating strategies China zealously. During the four years from 2001 to 2004, Sony invest approximate 0.6 billion US dollars in China, more than the aggregate amount before 2001. Nobuyuki Idei, Former chairman and CEO of Sony, announced “China Palace II Plan” at Shanghai Global Directors Conference in October of 2002, which focus on how to explore huge Chinese market in the near future. *The plan formulates a target that the sale in China will arrive at 1000 billion Yen in 2008, preponderating over Japanese market and turning into the second largest market of Sony,*<sup>29</sup> which upgrades China’s position in its global system highly. In consequence of that, Sony Corporation proclaimed in April of 2003 that it will repartition the main areas of Sony global operation, changing from past “ US, Japan, EU and other places” to “ North America, EU and East Asia” and paying more attention to the surrounding areas, especially in China. Simultaneously, Sony attach more importance to global localization so as to strengthen holistic operating ability in China, such as, the establishment of Customer Contact Center in Shanghai and EMCS (Engineering, Manufacturing, Customer Service) China in October, 2001 that has

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<sup>29</sup> Nobuyuki Idei , “China Palace II Plan” in the report of Sony Shanghai Global Directors Conference in October of 2002.

orientated China as a valuable market, the instauration in 2002 of Software Design and Exploitation Center in Shanghai, Information Service System Research Department in Dalian and Component Purchasing Center in Shenzhen. Particularly, Sony China Design & Engineering Group founded in April of 2005 set up the creative center in Shanghai in August of the same year, which improves indigenized extension of design and creation greatly and prefigures that 20 percent of Sony products promulgating in China are designed completely in the local site. Sony has formed an operating system in all directions, composed by technical design, manufacturing, sale and customer service. In the global supplying chain of Sony, China is not merely a manufacturing center but also grows up to a real sale market and design center, more expected to a dynamic engine of global market growth of Sony.



This picture is taken in my visitation to Sony Gallery located on the most prosperous Huahai Street of Shanghai and opened since April of 2004. The gallery is free for every passerby to visit, where exhibit various classical and updated products of Sony, including walkman, MP3, Notebook Computer, DC, DV, LCD television, PlayStation and other digital and electronic products, attracting lots of Chinese people to enjoy Sony atmosphere. When I was catching the vision that almost everyone was interested

in observing and trying products, I felt this propagandizing mode was excellent to exalt Sony's reputation in China and realized the practical accentuation of Sony to Chinese market. The manager told me that, averagely, there were more than thousands people to visit the gallery everyday. In the process of my communication with other visitors, most of them expressed strong curiosity and interest in Sony commodities, exclamatory for high technology and design.<sup>30</sup>

Kodera Kei, the former chairman and CEO of Sony in China (from February 2002 to March 2006), took charge of building up a regional headquarters in China to deal with East Asian operation, and indicated that China had obtained a huge potential market, important technology and components, which had endued China with a new role and responsibility in Sony reascent scheme, persisting into a task of gaining 8.0 billion US dollars sale in China and becoming the second largest market of Sony. In March 31 of 2006, Shizuo Takashino, a contriver of Walkman, replaced retired Kodera Kei, implying that Sony stress on advancing electronic field systemically and accelerate innovation in every step of operating process in China, such as product program, design, producing, sale, client service and others.<sup>31</sup> The new strategy of Sony in China signifies it will facilitate China to be a real and mature market of Sony gradually, engendering more dynamics for Sony renaissance.

## **6.2 Chinese market in the sight of other Japanese enterprises**

Whether other Japanese enterprises have readjusted the strategies and transformed operating pattern in China recently as Sony or not? Whether they continue to define China as a profitable place, a producing base or a rising sale market? Canon, Toshiba, Panasonic and Toyota are also the leading enterprises of Japanese industrial system, whose attitude to China can represent a new cognizance of China in Japanese business circles.

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<sup>30</sup> Interview with the manager and visitors in Sony Gallery in Huaihai Street of Shanghai, China.

<sup>31</sup> The inaugural speech of Shizuo Takashino as Sony (China) Chairman and CEO in March 2006. URL: <http://cn.biz.yahoo.com/060406/124/gtfd3.html>

At present, China not only provide a half of Canon outputting in East Asia and hold the largest producing base of Canon in the world, but also the operation of Canon in China has entered into the new stage since 2002, dominated by emphasizing on sale market of China, which means that China turns to an important portion of Canon's global market. Asian Sale Group Headquarters of Canon moved from Singapore to Beijing of China in 2002, showing that Canon makes a decision to accelerate exploiting Chinese market. Although the local sale in China only occupied 2 percent of global sale of Canon in 2004, Canon wishes the sale in China could amount up to 1 billion US dollars in 2007.

Toshiba has constructed an integrated system in China. And except for Japan, China is a unique country that can produce all the typical and main products of Toshiba. In 2005, the sale of Toshiba in China had reached 67 billion Yuan. And Toshiba intends that the share of China in total sale will be up to a percentage of 10 in 2007.

Chinese market in 2005 has sold 5.92 million cars aggregately, transcending German and Japan, up to the second largest motorcar market in the world, which is a substantive attraction for Japanese motor enterprises. In 2003, the share of Toyota in overall Chinese motorcar market is no more than a percentage of 3. Currently, new Chinese strategy of Toyota is composed by reinforcing investment, increasing sale agency in China from more than 100 to about 600 before 2008, and possessing 10 percentage of Chinese market until 2010.

Analyzing from upper instances, Japanese enterprises intensify a complete set of operating system in China in succession. According to the survey of Japan-China Investment Promotion Organization in the ending of 2002, near 80 percent of Japanese enterprises in China are profitable. While many giant Japanese electronic enterprises are suffering "Waterloo" in the worldwide in 2001, almost all of them acquired achievements in Chinese market, which mitigates the pressure of the gloomy

global transaction, forming an important profit source for Japanese enterprises. In the process of the ascending importance of China as a sale market, it will play more significant effects on Japanese economic recovering and drive high-technical to transfer from Japan to China. Indeed, these are still some immature and unfavorable elements in Chinese market, such as grievous piracy in defect of protect intellectual property, excessive competition, which obstructs the steps of Japanese enterprises in Chinese market. For instance, PlayStation 2 of Sony hasn't achieved outstanding sale since entering in China in 2004, resulted from a mass of piratical game software and immature game industry of China in a certain extent. Meantime, accompanying with the stronger and stronger competition in Chinese market, Japanese enterprises should utilize preponderant products to enlarge market proportion and debase venture capitals in excessive competition fields, which will promote China as a real market to make more contributions to Japanese sustainable economic revival.

## **7. Conclusion.**

### **7.1 Reasons for economic recovering**

The reasons for Japanese economic recovering in 2003 are internal structural reforms by private companies and external rising demands for Japanese products. Large Japanese enterprises transform operating strategies, consisted of decreasing employees and transferring producing base to abroad in order to overcome stagnation.

<sup>32</sup>In this case, by dint of low-cost human resource, China is the primary acceptor of manufacturing center transference of Japan, for Japanese enterprises to reduce costs and uplift profit margin. And they are striving for technical innovation to create updated products and producing mode. In fact, Digital Boom is dynamics to Japanese manufacture industry revival. Observing the digital market, DC (Digital Camera) and DV (Digital Video) fields are almost monopolized by Japanese brands. For instance, in the first quarter of 2004, the sale of DC in Chinese market grows up a percentage of 92.8 than the same term of last year. It is predicted that Chinese consumers in 2008

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<sup>32</sup> Naomichi Hayashi(1998), "How to Look at Japanese Economy", Page:69-75.

will buy more than 10 million digital cameras. All of these have provided a rising external market for Japanese electronic enterprises.

## **7.2 Transition from a producing base to a sale market**

In recent years, in overall Japan's export is the fastest, so that China as a bullish market demanding for Japanese products is more forceful for Japan to revive economy than as a manufacturing center. Thereby, Japan should redefine China as a producing base or a sale market. And penetrating from these economic phenomena, in my opinion, current China is more suitable for the latter, rather than a possessing base. In the stable development of global economy recently, China with 1.3 billion populations will maintain high growth in a considerable period, which is enhancing Chinese purchasing power and exploiting a huge potential market. Especially, digital machines field, in which Japan has prominent predominance, will be a super extensive market in China. Moreover, if Japan can catch this opportunity and consolidate its position in Chinese market, China will be an excellent exporting destination of Japanese products in the near future, which can be a long-term impetus for Japanese sustainable recovering

## **7.3 Durative dynamics from China**

As China is transiting from producing base to sale market, Japanese enterprises also transform the strategies in China, investing more on integrating operation system in the fields related to the demand of Chinese market. However, some of Japanese enterprises in other fields choose to come back the domestic to construct new product center, which is beneficial to alleviate employment press and stimulate individual consumption. Although enlarging individual consumption is crucial for Japan to conquer economic recession<sup>33</sup>, it is impossible in the case that consumption tax and personal income tax are always at a high level. If only dependent on government and enterprise investment, it will bring on surplus production and aggravate financial

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<sup>33</sup> Naomichi Hayashi(1998), "How to Look at Japanese Economy", Page:65-69.

burden<sup>34</sup>. It is still necessary for Japanese external demands to promote economic revitalization temporarily. In consequence of that, if Japan was desirous retain the economic recovering tendency, it still require utilizing the dynamics of rising sale market in China.

Summarily speaking, in virtue of the high growth of Chinese economy and the mutual complementarity of Japanese and Chinese economic structures, the rising demand of China as a sale market is a direct traction in the initiating phase of Japanese economic recovering in 2003, rather than a manufacturing base. Implementation of Japan-China trade liberalization is a pivotal step for the establishment of ASEAN+3(Japan, China, South Korea) free trade area, which is valuable for Japan to accelerate economic growth. Indeed, it is incontestable that external demand acts as an engine to initiate economic revival in Japan and will have an important influence in a long time. Currently, domestic producing ability in Japan is ascending little by little. On condition that Japan can catalyze the increasing of internal consumption, combining with the external demand, Japanese economy just can get back to healthy and stable growth way.

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<sup>34</sup> Bai Gao (2001), “ Japan’s Economic Dilemma-The Institutional Origins of Prosperity and Stagnation”. Page: 326-339.

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### **Interview:**

Interview and Questionnaire Survey in Akihabara Electronic Town from 30 to 31, July 2005.

Interview in the Sony Gallery located on Huaihai Street of Shanghai, China.

## **Appendix 1:**

### **The questionnaire of social survey in Akihabara Electronic Town**

①Do you think Japanese economy commence recovering in recent years?

②What are the crucial factors to promote Japanese economic revival? (Multi-choices)

A. Infection of Strong Performance of American Economy

B. Dynamics of large Chinese Market and Chinese High Economic Growth

C. Domestic Revolution of Economic Structure

D. Contraction of Japanese governmental finance

③ Does Chinese market deserve Japanese companies pay more attention?

④ What do you think of high growth Chinese economy to Japan, a minatory economic power, competitive opponent or cooperative partner?

⑤ Do you agree China is an engine of Japanese economic recovering?

⑥ Is China more proper to be a productive base or a market for Japanese enterprises in the future?

⑦ If you invest in China, what is the main reason of your determination?

⑧ Comparing to other place of Japanese international market, what are the different characteristics of Chinese market?