

The 5th Study Meeting on Asia

1. Date: December 14, 2010 15:00 – 17:00
2. Venue: Meeting Room, the Takeda Foundation
3. Title: Greater China and inevitable structural changes in China industry

Speaker: Mr. Koji Yoshida, Visiting Scholar, Fudan University

4. Participants :

01	Koji Yoshida	Visiting Scholar, Fudan University
02	Tsuneo Kanazawa	CEO, Excel of Mechatronix.Co
03	Yoshiyasu Milkami	Society for Researchers of International Development. Former CEO, Unico International Co.
04	Kazutoshi Oyamada	International Program Department, Japan Society for the Promotion of Scienc
05	Ikuo Moriwaki	Dou Yee International
06	Ikuo Takeda	Chairman, the Takeda Foundation
07	Mlstuo Akagi	Senior Managing Director, the Takeda Foundation
08	Ysuo Tarui	Managing Director, the Takeda Foundation
09	Yuzo Mizobuchi	Director, the Takeda Foundation
10	Norio Ohto	Director, the Takeda Foundation
11	Naoaki Aizaki	Program Officer, the Takeda Foundation
12	Aiko Ubasawa	Program Specialist, the Takeda Foundation
13	Setsufumi Kamuro	Program Specialist, the Takeda Foundation
14	Mototaka Kamoshida	Program Specialist, the Takeda Foundation
15	Emiko Mitsui	Program Officer, the Takeda Foundation
16	Takami	Member, the Takeda Foundation

5. Memo

Mr. Yoshida is a former Managing Director of Mitsui Chemicals. Currently he teaches Japanese economy and business as a Visiting Scholar at Fudan University, China. He was a representative of Mitsui Chemicals in China and has been staying in Shanghai since 2004. He submits reports on China's industry and business to various media including Kagaku Keizai, Chemical Economics, based on his experience and research. China's economy is supported by not

only mainland China's economic activities, but also by networks of the 65 million overseas Chinese. . This fact leads to the understanding of China and overseas Chinese economic activities as a set, which is now called Greater China. Mr. Yoshida will explain China's economic activities from the viewpoint of Greater China and talk about their challenges in industry.

1. Has China become a developed country?

China's GDP was the third after Japan's in 2009, but it is sure that China will become the number two economic giant in 2010 because their fourth quarter GDP surpassed that of Japan. However, China's GDP per capita was only 3,300 US dollars in 2008, which is less than 10% of Japan's GDP per capita (US 38,600). Even when they become the number two economic giant, their GDP per capita will still be at the level of developing countries. There is a big economic discrepancy between the developed areas such as Shanghai, Beijing, and Tianjin and the remote areas such as the Provinces of Anhui and Yunnan. Together with other domestic problems, including ethnic problems, dwindling birthrate and an aging society, and housing problems, the economic discrepancy is a big challenge that China should address.

2. Effects of the Shanghai Expo

It is estimated that direct investment in the Shanghai Expo and indirect economic effects were 7 and 14 trillion yen, respectively. The Shanghai Expo seems to have economic effects that account for 4.1% of China's GDP. The Expo also seems to have significant soft effects, including educational effects on people who came to Shanghai from all over China, and advertising effects that China is civilized enough to manage a world affair.

3. Greater China, networks of Chinese descendent

The number of overseas Chinese is estimated to be 65 million, including 8 million who live in Taiwan. Trade between China and overseas Chinese is increasing every year. Especially, trade between China and Taiwan increased from 80 billion US dollars in 2005 to 300 billion US dollars in 2008. Many exporting firms in China have their origins in Taiwan. Trade between China and ASEAN increased by a factor of 10 from 21.6 billion US dollars in 1998 to 225.9 billion US dollars in 2008. As for direct investment in China, Singapore increased its direct investment from 2.0 billion US dollars in 2004 to 4.4 billion US dollars in

2008, whereas Japanese direct investment in China decreased from 5.7 billion US dollars in 2004 to 3.6 billion US dollars in 2008. As these numbers show, China has been promoting its economic growth by strengthening ties with overseas Chinese.

4. Deepening mutual dependency: Japan-Sino relations

Of China's export goods in 2009, 21.8% were bound for the US, 9.5% for Japan, and 5.2% for Korea. When exports to the US are suppressed, then the expectation for exports to Japan rises. Of China's imports, 13% of goods are from Japan, 10.2% from Korea, and 8.5% from Taiwan. Imported goods from Japan include capital goods such as semiconductor parts, steel materials, and integrated circuits, and China manufactures export goods using these capital goods. It will be difficult for China to develop energy-saving systems and environment friendly mechanisms without support from Japan. However, China's dependency on Japan decreases and Japan's dependency on China increases as China's trade expands. Japan should develop trading structures that do not excessively depend on China.

5. Inevitable structural changes in China's industries

China's economy has basically investment and export structures. There is an excessive demand for factory workers whereas the demand for clerical workers is low, and it is estimated that there are 2 to 3 million college graduates who do not have regular jobs. Together, China's industries essentially make up an assembling industry, which produces low added value goods and does not make high profits. Labor costs are rising because of workforce shortages in coastal areas, and there is a possibility of losing international competitiveness in the manufacturing industry. The Chinese government is trying to expand its domestic market under pressure from the US, but they need to change their industrial structure from manufacturing to consumption and a service economy. The Chinese government is trying to develop newly rising industries including new energy, environment and energy-saving industry, and IT industry, with their 5 year plan. Japanese technologies in IT and energy-saving industries are far more advanced than their Chinese counterparts, and Japan should consider what kinds of technologies and how they can be exported to China in case of the export of capital goods and technologies.

6. Problems in China

The dwindling birthrate and an aging society are big problems for China. It is estimated that the growth of the productive population will stagnate in 15 years, and that there is a danger of losing the driving force of economic growth. China also has other problems such as a one-party regime, ethnicity problems derived from Chinese supremacy over other races, and the demand for democratic political systems, and these problems hamper efforts by the Chinese government to promote diplomatic actions toward the US. There is also the possibility of an explosion of people's frustrations over the fixation of the privileged class. China's one-party regime will sometime collapse, but not in the same way as the Soviet Union did.

7. Future Japan-Sino relations

In consideration of Japan's dependency on China, Japan should take friendly approaches to help improve their environment and energy-saving systems and food safety systems, and, at the same time, Japan should try to develop conditions to pressure China to follow international rules by building multi-lateral diplomatic relations with the US, Russia, India and Vietnam. It will be mutually beneficial for both Japan and China not to stir up boundary disputes such as "Senkaku Retto". However, the Senkaku Retto problem has made it clear that there are risks to dealing with China, such as the supply of rare metals, and Japan should take measures to disperse investment targets and secure multiple sources of natural resources to avoid the risks China presents. Japanese firms should maintain important R&D in Japan to secure the competitiveness of technologies even if they move manufacturing sites to China. China moves strategically while Japan moves passively. Japan should take the initiative in the development of international cooperation frameworks such as the East Asian Community, but, unfortunately, China will not go along with Japanese initiatives.

China would not ask Japan to pay reparations for its loss in the Japan-Sino War when Kakuei Tanaka and Zhou Enlai electrifyingly restored diplomatic relations in 1972. When China lost the Japan-Sino War in 1894, China had to pay a large amount of reparations, which caused the Chinese people great hardship. Zhou Enlai said that he would not want the Japanese people to suffer the same hardship. I think that the Japan-China relationship should return to the mindset of the restoration of diplomatic relations in 1972.