

# Overcoming Japan's China Syndrome

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# From Pessimism to Optimism

- From devaluation to revaluation of Chinese Yuan
- From “who would feed China” to “safeguard against Chinese agricultural products
- Impact of IT Revolution: From digital divide to leapfrogging
- Japan’s loss of confidence

# An Objective Evaluation of China's Economic Power

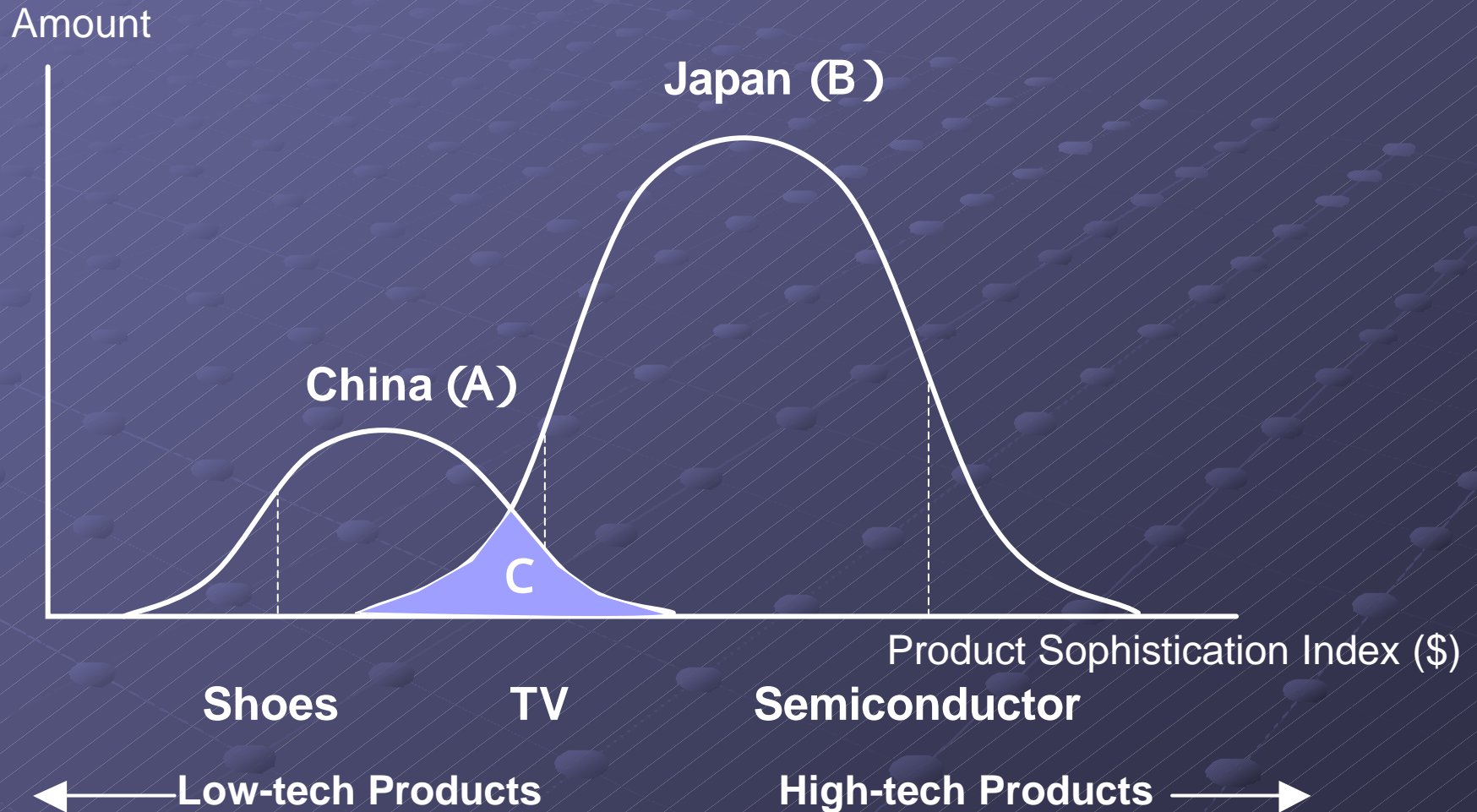
- GDP level instead of rate of change
- High share of foreign companies and import content
- Disparities between coastal and inland regions

# Comparison between Major Development Indicators of China and Japan

	China (Latest )		Japan (Around 1960 )	
	Female	Male	Female	Male
Life Expectancy (years)	72 (1998 )	68	72.92 (1965 )	67.74
Infant Mortality Rate (per thousand)	31 (1999 )		30.7 (1960 )	
Primary Sector as a Share of GDP (%)	15.9 (2000 )		16.7 (1959 )	
Engel's Coefficient In Urban Areas (%)	39.2 (2000 )		38.8 (1960 )	
Per Capita Electricity Consumption (kwh)	1071 (2000 )		1236 (1960 )	

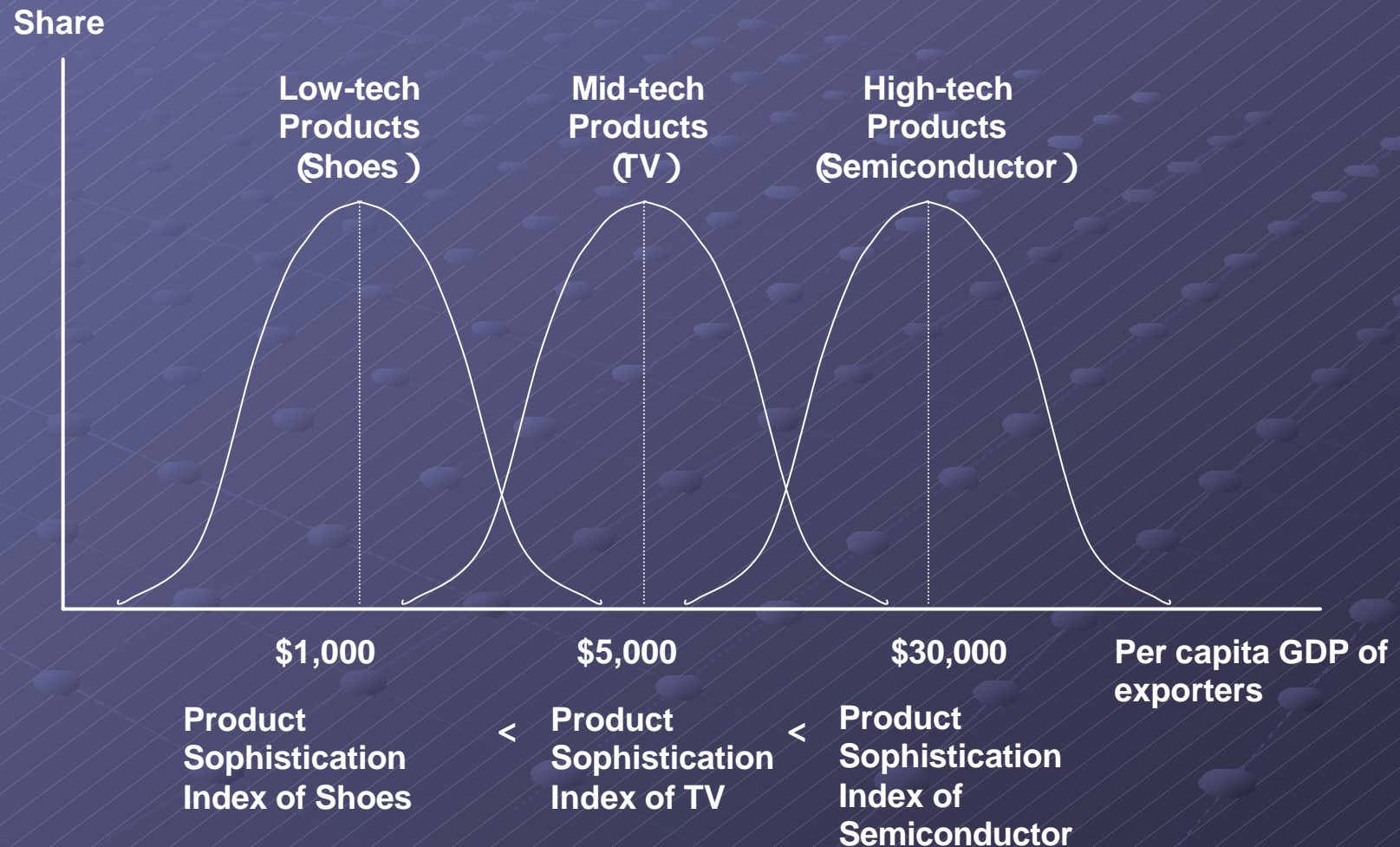
Source: *China Statistics Abstract, Japan's 100 Years* (Kokuseisha).

# Competition between China and Japan

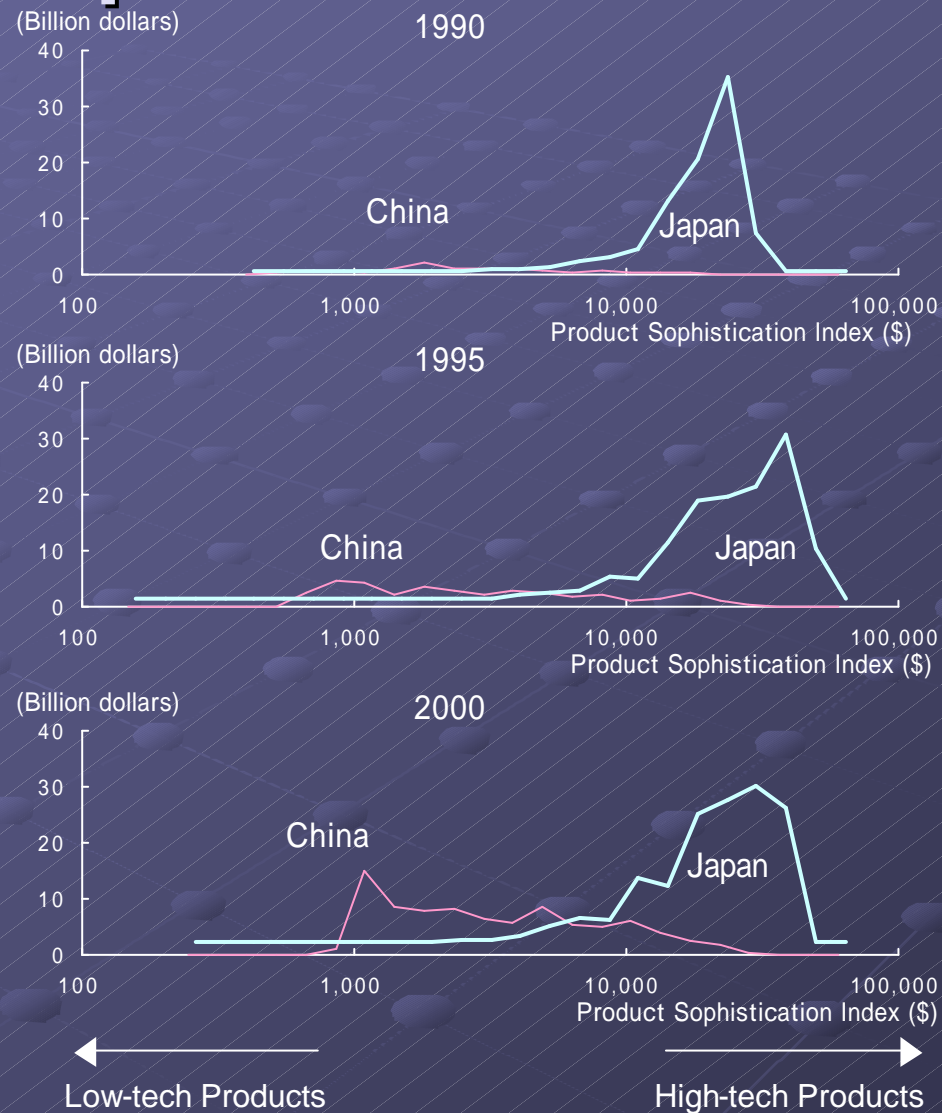




# Calculation of Product Sophistication Indexes



# Competition between China and Japan in the U.S. Market



# Asian Countries' Competition with China

	1990	1995	2000
Japan	3.0%	8.3%	16.3%
South Korea	24.0%	27.1%	37.5%
Taiwan	26.7%	38.7%	48.5%
Hong Kong	42.5%	50.5%	55.9%
Singapore	14.8%	19.2%	35.8%
Indonesia	85.3%	85.5%	82.8%
Malaysia	37.1%	38.9%	48.7%
Philippines	46.3%	47.8%	46.1%
Thailand	42.2%	56.3%	65.4%



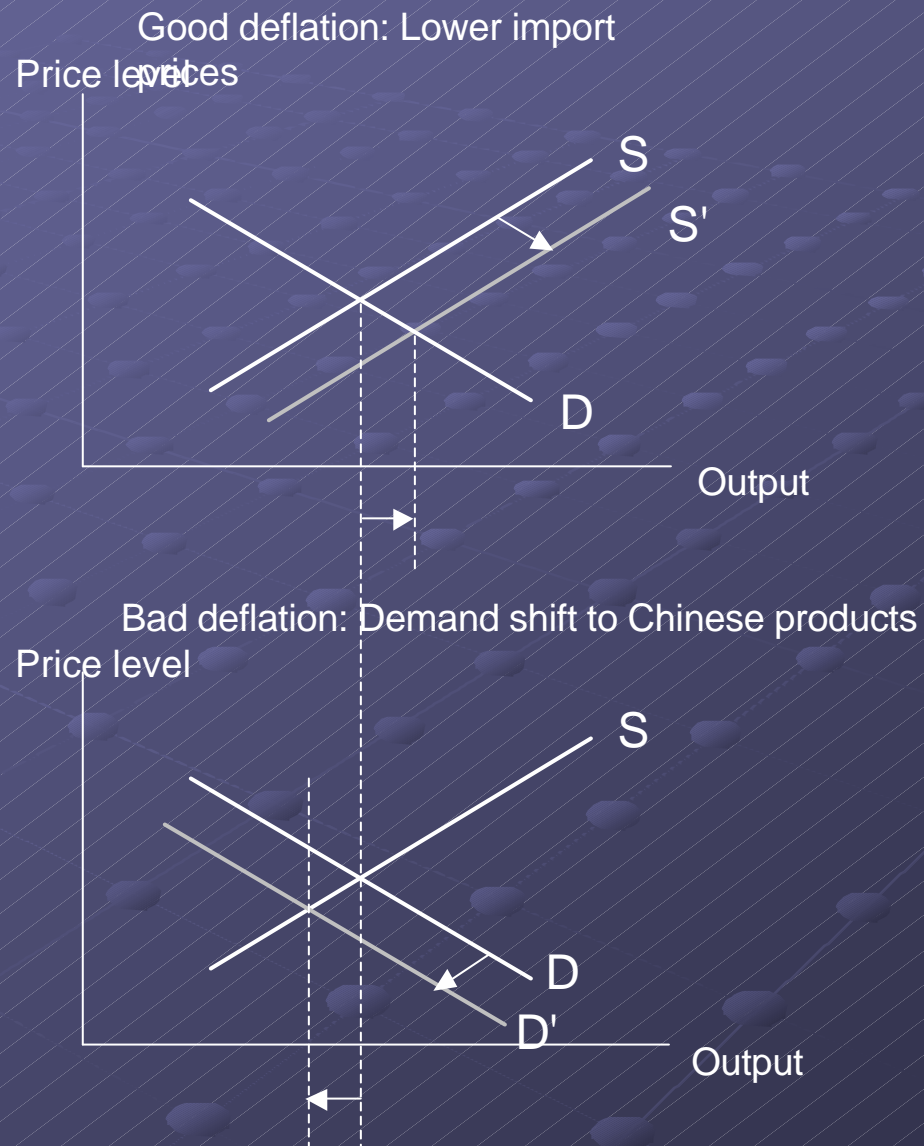
# Japan Competes only about 10% with China

- Division of labor within each product category
  - Lower-end versus higher-end products
- High import contents of Chinese products
- Actual degree of competition with China about 10% for Japan

# The Rise of China: Implications for Relative Prices

- Terms of trade = Export prices / Import prices
- China's TOT = 
$$\frac{\text{Prices of labor-intensive goods}}{\text{Prices of technology-intensive goods}}$$
- China's TOT falls – immiserizing growth
- ASEAN – Terms of trade fall with China
- Japan and NIEs – Terms of trade improve

# The China Factor in Japan's Deflation



# Overcoming Japan's China Syndrome

- Protectionism incompatible with structural reform
- Industrial Upgrading without hollowing out
- Focus on productivity, not competitiveness
- Rise of China and other Asian countries means a shrinking North-South gap
- It is in Japan's interest to be surrounded by prosperous and peaceful nations rather than by poor and unstable ones