A collection of historical artifacts is displayed on a light-colored surface. On the left, a wooden chessboard with a checkered pattern and several chess pieces is visible. Below it, a blue ribbon with a circular emblem is attached to a silver star-shaped medal. Another similar medal is positioned above it. In the bottom left corner, a circular compass with a needle and degree markings is shown. A quill pen with a wooden handle and a red-tipped nib lies horizontally across the center of the image.

Comments on Dr. Kawn's  
Presentation: The Rise of China:  
Challenges and Opportunities  
for Japan and the World

Yuqing Xing  
International University of Japan



I could not agree more with Dr. Kawn's in-depth analysis on the emerging China. His analysis unambiguously suggests that:

1. The emerging China represents opportunities for Japan. China and Japan should be partners rather than rivals;
2. Further economic cooperation through FTA will benefit both economies substantially;
3. The complementary nature between the two economies implies that the negative impact (if there exists any) due to the economic integration between the two economies would be minimal.
4. Relocating mature industries through FDI into China is a natural result of Japan's economic development. It actually strengthened Japanese MNEs' competitiveness in the global market.



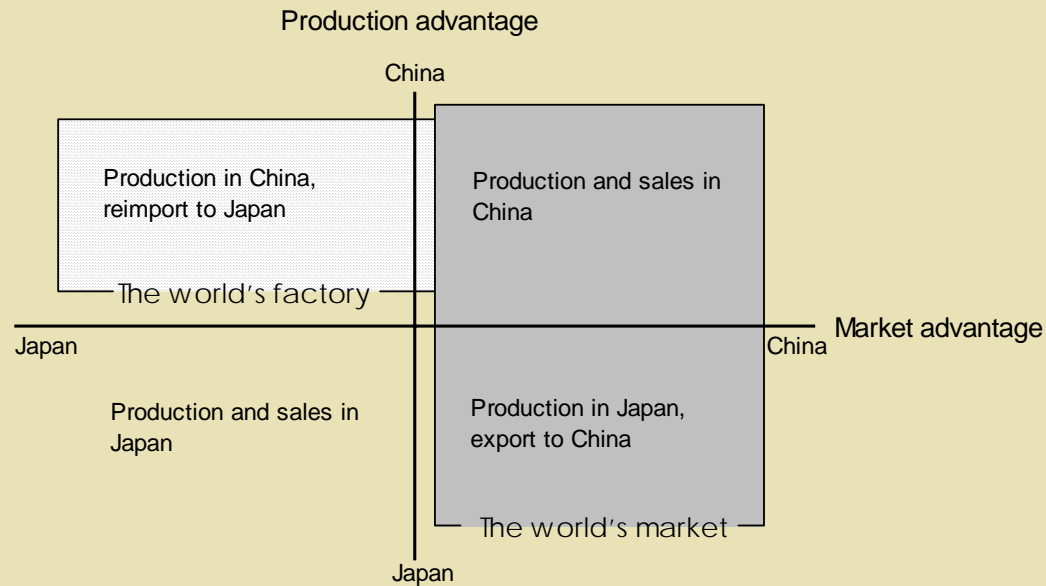
## Towards an FTA between Japan and China

As Dr. Kawn pointed that the two economies are basically complementary and compete within less than 10 percent product categories, I think that the two countries should start FTA negotiation as soon as possible.

It is expected that Japan and Korea will highly likely conclude the negotiation on FTA. Bring China into the FTA and creating China, Japan, and Korea FTA will give a rise a much powerful free trade region that can compete with EU and NAFTA.

The complementary economic structure, the culture proximity, the increasing economic integration among the three countries suggest that the three countries FTA is more realistic and better than the framework of the APEC.

# Models of "China Business" for Japanese Firms



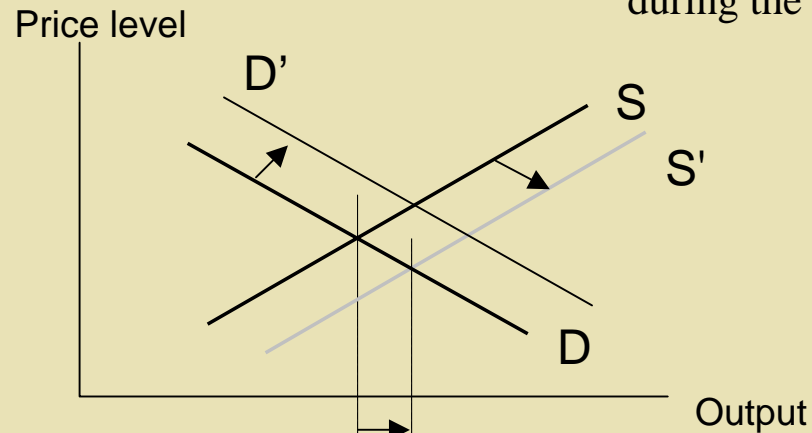
In short-run, China serves as the world factory for *Japan and other overseas market*; in the long-run, as Chinese economy grows, China will be a world market. Japanese MNEs investing in China are winners in both the short run and the long run.

So far, Japanese affiliated manufacturers in China are basically export-oriented. Local sales, reverse imports, and the sale in other overseas market each accounted about one third of their total sales.

# Does China factor really matter for Japan deflation?

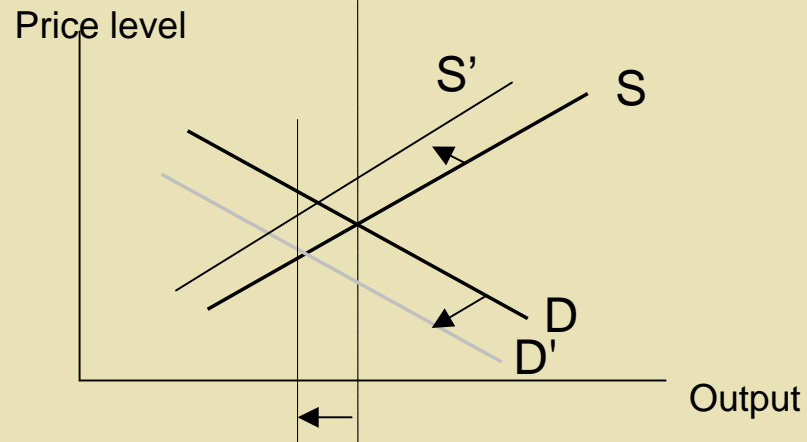
1991-2003: Japan had trade surplus with China in 7 years out of 13 years. The total trade surplus with China during the period was \$25.98 billion

Good Deflation:  
Lower import prices



D shifts to D' due to China's demand for Japanese goods and services

Bad Deflation:  
Demand shift to Chinese products



S shifts to S' due to the exports to China

**What is the weight of Made in China in Japan CPI?**





## China Exchange Rate Policy and Japanese Companies

- ◆ A moderate appreciation/depreciation could not reverse the comparative advantage determined by resource endowments. Thus, an appreciation in yuan will not give Japanese firms comparative advantage in labor intensive industries.
- ◆ Japanese MNEs have established huge production facilities in China since 1990 to serve Japan and other overseas market. In 2002, Japanese affiliated manufacturers in China, exported 2,245 billion yen, about 65% of their output, of which 1,057 billion yen was exported to Japan. An appreciation in yuan will definitely erode these firms' profits
- ◆ Pegging yuan to the dollar policy actually provides an opportunity for Japanese MNEs to hedge exchange rate risk( the volatility between yen and the dollar) and strengthen their competitiveness relative to their competitors from the US, Germany, UK, etc.



## Is Japan or China the Winner?

Japan is China's largest trading partner. China is Japan's second largest trading partner. The Sino-Japan trade amounted 133 billion in 2003, a 30% increase over the year before. From 1994 to 2002, Japanese FDI in China accumulated about \$31billions.

As capitals always flow into where high rate of return exists and trade is the Pareto improvement for the welfares of both trading partners, the economic cooperation between Japan and China has been creating, and will continue to create a *win-win* scenario for both countries. **Both China and Japan are the winner of the further economic cooperation.**