



# **The Rise of China: Should Japan be Afraid?**

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Editor, Oxford Analytica Daily Brief**





# China goes Global: the Growth and Integration Story

|   | 1980         | 1990        | 1998        | 1999        | 2000          | 2001          | 2002        | 2003*        |
|---|--------------|-------------|-------------|-------------|---------------|---------------|-------------|--------------|
| <b>GDP growth</b>                                 | <b>7.9</b>   | <b>3.8</b>  | <b>7.8</b>  | <b>7.1</b>  | <b>8.0</b>    | <b>7.3</b>    | <b>8.0</b>  | <b>7.5**</b> |
| <b>Total Foreign Trade, US\$ bn</b>               | <b>38.1</b>  | <b>115</b>  | <b>324</b>  | <b>361</b>  | <b>484</b>    | <b>510</b>    | <b>621</b>  | <b>523</b>   |
| <b>Total Exports, US\$ bn</b>                     | <b>18.1</b>  | <b>62.1</b> | <b>184</b>  | <b>195</b>  | <b>249</b>    | <b>266</b>    | <b>326</b>  | <b>266</b>   |
| <b>Exports by Foreign-Invested Firms, US\$ bn</b> | <b>n.a.</b>  | <b>7.8</b>  | <b>80.9</b> | <b>88.6</b> | <b>119</b>    | <b>133</b>    | <b>170</b>  | <b>n.a.</b>  |
| <b>Cargo Handled at Principal Ports, tons m</b>   | <b>217</b>   | <b>483</b>  | <b>922</b>  | <b>1052</b> | <b>1256</b>   | <b>1426</b>   | <b>1663</b> | <b>n.a.</b>  |
| <b>Number of Foreign Tourists</b>                 | <b>529.1</b> | <b>1747</b> | <b>7108</b> | <b>8430</b> | <b>10,160</b> | <b>11,226</b> | <b>n.a.</b> | <b>n.a.</b>  |

\* January to August, 2003

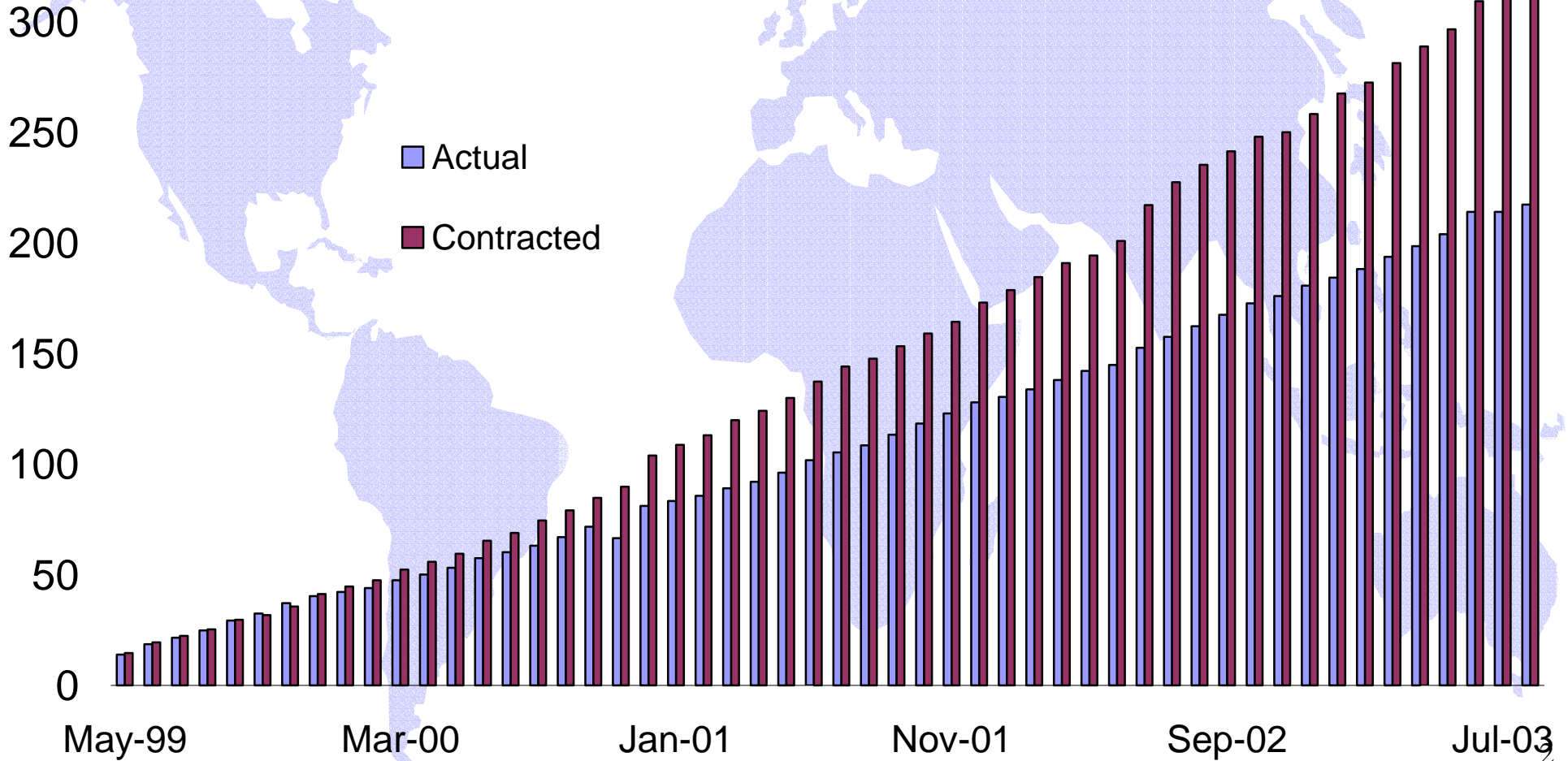
\*\* IMF Prediction for full-year 2003

Sources: Chinese Statistical Yearbook, Bloomberg, IMF



# Foreign Direct Investment, US\$ billion

## China: Cumulative FDI



Source: Bloomberg



# New Leaders – New Policies

## “The Fourth Generation”



Wu Bangguo  
Born 1941



Hu Jintao  
Born 1942



Wen Jiabao  
Born 1942



Li Chongchun  
Born 1944



Zeng Qinghong  
Born 1939



Huang Ju  
Born 1938



Jia Qinglin  
Born 1940



Luo Gan  
Born 1935



Wu Guanzheng  
Born 1938



# Downside Risks

- **Fragile Financial Sector**
- **Ailing State Enterprises**
- **Rising Unemployment**
- **Regional Disparities**

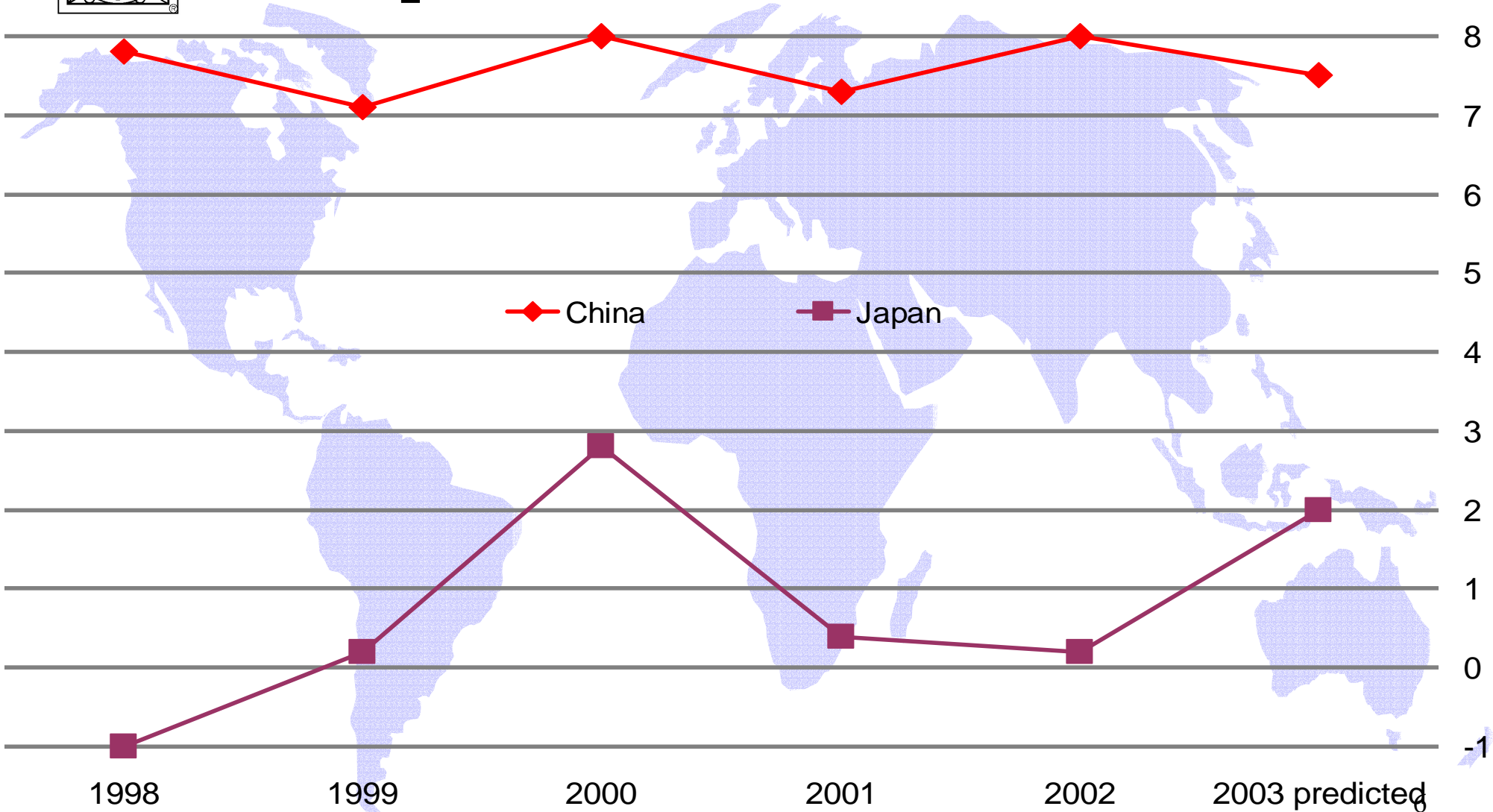


# The Party under Pressure

- **Co-opting the corporations: the new 'inclusive' party**
- **Fifty-four years in power but still no democracy**
- **Rule by Law?**
- **Limits of Reform?**



# GDP growth: China and Japan compared







# CHINA v JAPAN: Leading indicators, 2002

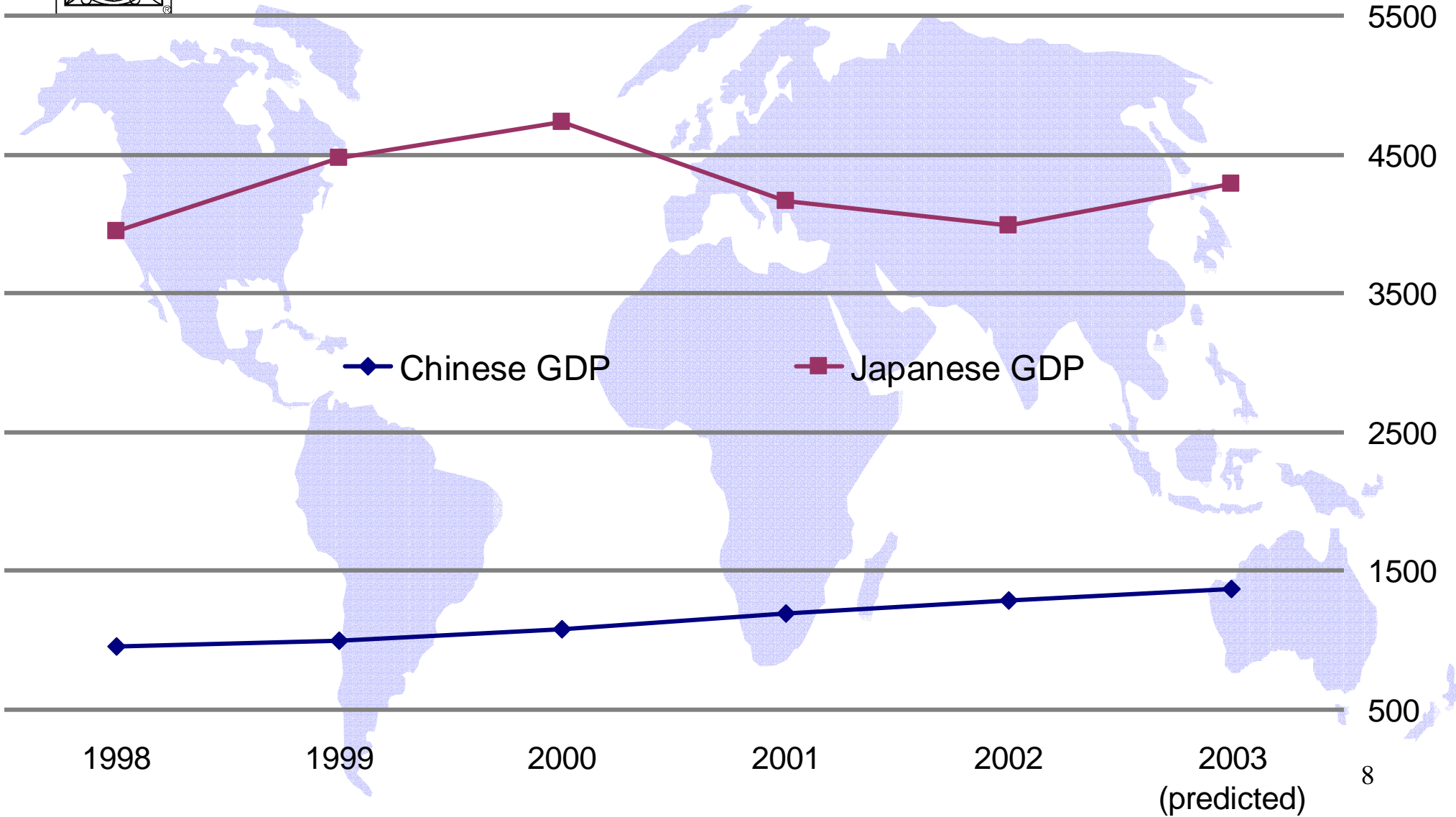
|              | <b>GDP per capita,<br/>US\$ (2002<br/>estimate, PPP)</b> | <b>Imports (US\$<br/>billion)</b> | <b>Exports (US\$<br/>billion)</b> | <b>Total trade</b> | <b>Foreign<br/>currency<br/>reserves, US\$<br/>billion (2002)</b> |
|--------------|--|-----------------------------------|-----------------------------------|--------------------|---|
| <b>China</b> | <b>4,600</b>   | <b>295.3</b>                      | <b>325.6</b>                      | <b>620.9</b>       | <b>295</b>  |
| <b>Japan</b> | <b>28,000</b>  | <b>338.0</b>                      | <b>417.2</b>                      | <b>755.2</b>       | <b>470</b>  |

Source: CIA World Fact Book, US Department of Commerce, PRC Customs administration, Japanese Ministry of Finance





# Total GDP, US\$ billion (market rates)



5500

4500

3500

2500

1500

500

1998

1999

2000

2001

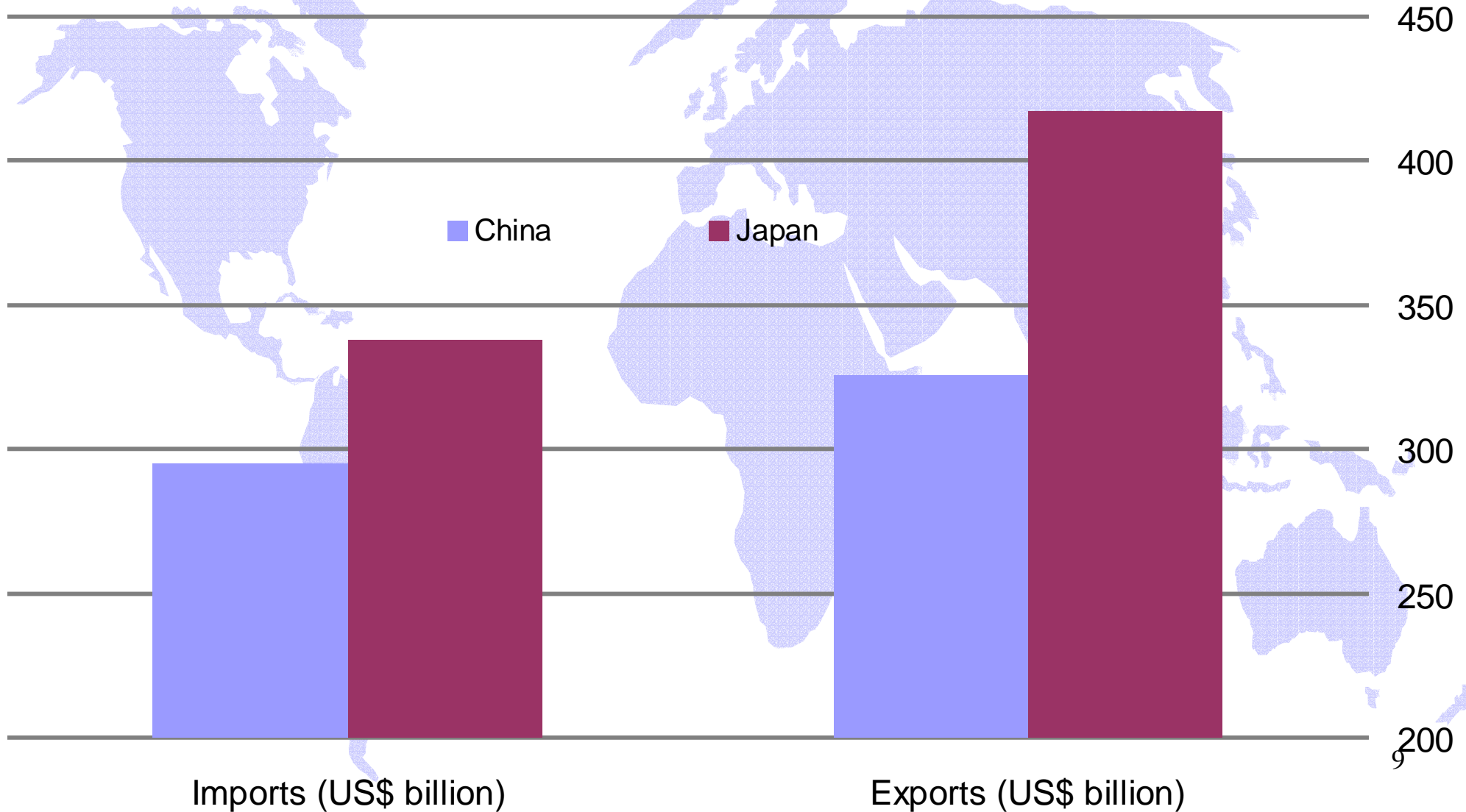
2002

2003

(predicted)



# Trade performance 2002: China and Japan compared





# Sino – Japanese trade

|      | Japanese imports<br>(US\$ billion) | Japanese exports<br>(US\$ billion) | Trade balance<br>(US\$ billion) |
|------|------------------------------------|------------------------------------|---------------------------------|
| 2002 | 61.7                               | 39.8                               | -21.9                           |
| 2001 | 57.8                               | 31.0                               | -26.9                           |
| 2000 | 55.1                               | 30.4                               | -24.7                           |
| 1999 | 42.9                               | 23.4                               | -19.5                           |
| 1998 | 37.0                               | 20.0                               | -17.0                           |

Source: Bloomberg, Yen to Dollar prices at year-average



# China's top trading partners, 2002

|                   | Total trade with China,<br>US\$ bn | Percentage of total<br>Chinese trade |
|-------------------|------------------------------------|--------------------------------------|
| United States     | 133.7                              | 20.7                                 |
| Japan             | 99.6                               | 15.4                                 |
| Hong Kong         | 83.0                               | 12.9                                 |
| Republic of Korea | 39.2                               | 6.1                                  |
| Germany           | 29.6                               | 4.6                                  |

Source: Asian Development Bank



## Chinese FDI by source, 2002

|                   | Contractual FDI, US\$ bn | Realised FDI, US\$ bn | Percentage of total FDI |
|-------------------|--------------------------|-----------------------|-------------------------|
| 1. Hong Kong      | 25.2                     | 17.9                  | 30.45                   |
| 2. Virgin Islands | 12.6                     | 6.12                  | 15.3                    |
| 3. U.S.A          | 8.16                     | 5.42                  | 9.85                    |
| 4. Japan          | 5.3                      | 4.19                  | 6.4                     |
| 5. Taiwan         | 6.74                     | 3.97                  | 8.14                    |

Source: Chinese Ministry of Commerce



# Japan's China worries

- **Flight of manufacturing**
- **Japan Inc. in China**
- **Dangerous dependency?**



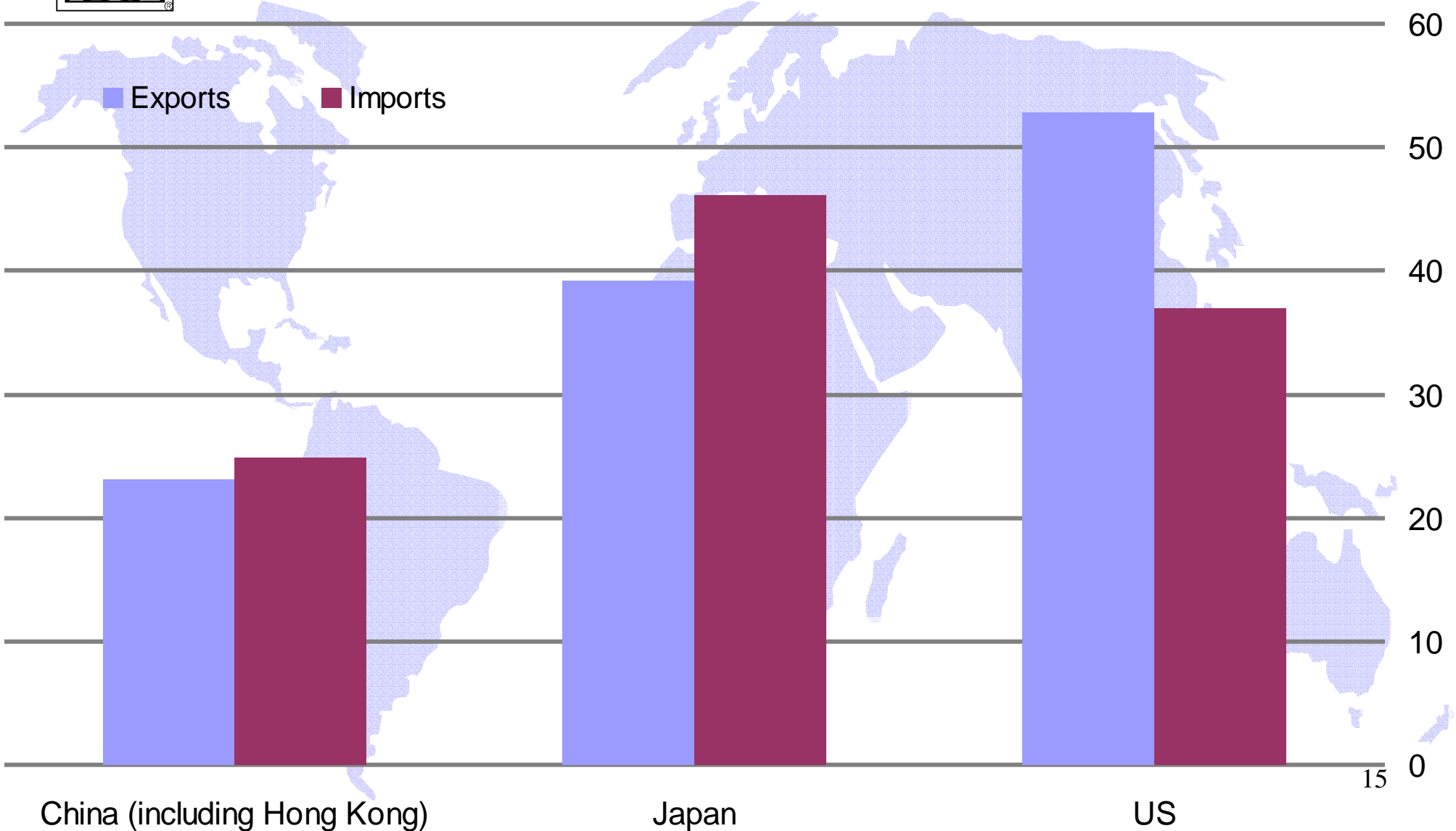
# **Regional integration/leadership**

- **Changing trade patterns**
- **China's 'new' diplomacy**
- **Japan's residual advantages**





# ASEAN trade, US\$ billion





# **China and Japan: Frail friendship?**

- **‘History as a mirror’**
- **‘Thick’ ties and ‘thin’ ties**
- **How (and where) it might all go wrong**



# A Summing Up

- **China is less stable than it looks**
- **Japan is more ‘dynamic’ than sometimes realised...**
- **...but, to ‘cope’ with China, Japan will need to be more dynamic still**