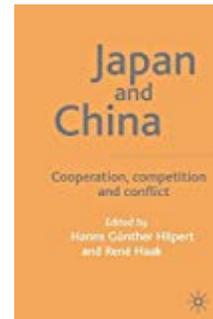




Hanns Gunther Hilpert, Renee Haak, eds. *Japan and China: Cooperation, Competition and Conflict*. Hampshire and New York: Palgrave Macmillan, 2002. v + 217 pp. \$50.00 (cloth), ISBN 978-0-333-97038-6.



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Japan, China, and East Asian Economics: It's the Military, Stupid! No, Wait Until the Next Energy Crisis, Stupid!

Japan, China, and East Asian Economics: It's the Military, Stupid! No, Wait Until the Next Energy Crisis, Stupid!

This collection of essays focuses on various economic dynamics between the two largest Asian national economies, Japan and China. For the past decade Japan has been facing economic woes, which have been most dramatic since the collapse of its stock and real estate markets. In China, economic growth has continued virtually unabated. By all appearances the new century will see China become a major political, military, and economic power, in all likelihood holding Asia's sway. So the question arises: will the future relationship between Japan and China be cooperative or conflictive? It is a matter of great international importance how these two countries forge a bilateral relationship, find their roles in East Asia, and simultaneously deal with the United States and the rest of the world.

Hanns Gunther Hilpert and Ren Haak, the editors of *Japan and China: Cooperation, Competition and Conflict*, are generally optimistic about the future between

Tokyo and Beijing. However, in their reflections on Sino-Japanese relations over the past centuries, they recognize both positive and negative circumstances:

"The past 2000 years of Sino-Japanese relations have been harmonious and mutually beneficial, at times, and antagonistic and conflictive at other times. On the positive side, Japan appreciates the Chinese historical contribution in the realms of religion, philosophy, culture and technology. China, in turn, is pursuing an economic policy partly inspired by the developmental success of Japan and its followers in Asia, such as Taiwan, Korea and Singapore. On the negative side, however, the fierce political military conflicts and the atrocities of war in more recent history weigh heavily on the mutual relationship" (pp. 2-3).

In this volume there are scattered references to the tensions between the two countries in regard to either Japan's militaristic past or China's current arms build up. C. H. Kwan notes "because of the memory of Japan's invasion of China during the Second World War, most Chinese people have a negative image of Japan, making it

difficult to build up mutual trust between the two sides” (p. 24). Similarly, Yasuko Kameyama observes that China has no desire to further strengthen its political and economic ties with Japan until after “resolving the historical legacy of the Second World War” (p. 140). On the other hand, as pointed out by Juichi Inada, during the mid-1990s the Japanese government temporarily halted its official development assistance to China in reaction to the Beijing government’s nuclear testing (p. 133).

Unfortunately, this volume does not offer an in-depth look at Japan’s ambivalence toward China’s growing military-industrial complex. In passing, Hilpert (“China and Japan: Conflict or Cooperation? What does Trade Data Say?”) considers the contrasting ways of analyzing international relations, such as a political science viewpoint using the balance of power approach or an economic perspective relying on the neo-classical trade theory. He cautions that social scientists rely on more than one analytical approach. He argues for a “normative view,” one in which “neither a completely conflictive nor an entirely cooperative bilateral relationship” is the presupposition (p. 34). This middle ground, for all practical purposes, is why the book does not address the military question directly. To do so might, following Hilpert’s logic, result in an anti-normative analysis, one emphasizing the conflictive. Consider how Hilpert depicts an example of this alleged extremism:

“A political scientist looking at international relations with the rational of the balance of power approach would probably conclude that the differences between China’s and Japan’s national interests were irreconcilable, and adjustment issues arising from bilateral economic closeness were just minor issues before a major, brewing storm. China distrusts a Japan unable to resolve the legacy of its war atrocities. China feels uneasy about an Asia dominated by an economically and technologically strong Japan, which is allied by a security treaty to the USA and has close links to Taiwan. Japan, on the other hand, is challenged by a rapidly growing and advancing China striving to re-assume its central, dominant position in Asia. Moreover, Japan is wary of China’s increasing military capacities. Looking at these contrasting views it is easy to conclude that the Sino-Japanese relationship will be shaped by economic and strategic rivalry” (p. 33).

Overall, the essayists skirt the military question, but focus primarily on trade and economic development. The book’s index, oddly, does not list words like “military” or “defense.” Yet China is the world’s biggest importer of

weapons. Where do the economists suppose China gets its cash flow for buying war hardware? The answer, of course, is in China’s trade surplus. The *raison d’être* of China’s modernization, it could be argued, is rooted in its geopolitical (hence military) ambitions. For example, in June 2002 China made an agreement with Russia to purchase eight diesel-powered 636 Kilo-class submarines (at a cost of \$1.6 billion), which was viewed by defense experts as part of Beijing’s overall strategy to eventually retake Taiwan.[1] The Chinese military is also a major arms exporter (earning at least \$1 billion annually) and responsible for some 10,000 factories that hire 700,000 workers.[2] China’s emphasis on economic growth parallels its dozen years of double-digit increases in its military budgets. The rulers of Beijing want their country to have regional dominance and to be the equivalent of a superpower, an ambition requiring economic and technological means. Unfortunately, Hilpert and Haak fail to include an entry that directly addresses this political and economic reality.

So what does this book specifically address? Japan’s role in China’s industrialization is a major topic, and it is well documented. Anyone interested in how Japan has greatly contributed to China’s modernization would do well to review the contributions of Katsuji Nakagane (“Japanese Direct Investment in China: Its Effects on China’s Economic Development”), Markus Taube, (“Japan’s Role in China’s Industrialization”), Juichi Inada (“Japan’s ODA: Its Impacts on China’s Industrialization and Sino-Japanese Relations”), and Tomoo Marukawa (“Japanese FDI and China’s Industrial Development in the Automobile, Electronics and Textile Industries”).

For years Japan was the only industrialized country in Asia. Prior to World War II Japan occupied northeast China and started industrializing the region. Beginning in the late 1920s, Japan invested in heavy industry in Manchuria, but after World War II the Soviet Union stripped the area of machinery and entire plants, claiming it not as war booty but as Japanese reparation payments. Not until the 1970s, with Chinese economic reform progressing under the leadership of Deng Xiaoping, was it possible for Japan to once again play a role in China’s industrialization. But only by the mid-1980s did Beijing commit itself to a market-based economy. According to Markus Taube, Chinese leaders came to regard Japan as a model; a third way that avoids the problems of the “all-state” economic system and the excesses of the “no-state” *laissez faire* approach (p. 104).

Beginning in 1954 Japan offered China extensive offi-

cial development assistance (ODA), which was regarded as war reparations (p. 121). No other country has provided more ODA to China than Japan, but Japan has been calculating in its giving and has reaped some reciprocal benefits. According to Taube, the ODA from Tokyo “has traditionally been closely connected to the economic self-interest of Japan” and has “served as a lubricant for economic relations with China” (p. 110). The Japanese government also provided subsidized loans to Japanese corporations introducing key technologies in China, giving Japan an advantage by setting standards for subsequent industrial development. However, Japan’s success was limited. Although Japanese companies in China did have an edge in comparison to other foreign companies, Tokyo “did not succeed in leaving its imprint on the style and direction of the Chinese industrialization process, nor was it able to integrate China in its transnational development strategy for East Asia” (p. 110).

But where Japanese ODA went, Japanese foreign direct investment (FDI) followed. Most of Japan’s FDI to China has been in the manufacturing sector, labor-intensive industries such as food processing, textiles, and apparel (p. 55). Japan’s motives for investing in China are largely to take advantage of cheap labor for making products to be exported to Japan (pp. 63, 66), but there is also a long-term perspective of anticipating profits from an expanding Chinese market (p. 69). In 2002 China became Japan’s biggest source of imports, displacing the United States.[3] Figures for 1996 show that 40.8 percent of China’s total exports were made by foreign enterprises (p. 55) and some of that represents the fruit of Japanese FDI. Japan’s share of China’s FDI inflow was greater during the 1980s than the 1990s, 16.1 percent in 1985 versus 7.5 percent in 1999, but the actual investment dollar provided by Japan has remained high (\$1 billion in 2000). Japanese ODA and FDI to China have linked the countries economically. According to Hilpert, Sino-Japanese trade interdependence indicates a continual pattern of bilateral cooperation. China imports more from Japan than any other country while Japan is China’s second greatest trading partner (p. 48).

C. H. Kwan (“The Rise of China as an Economic Power: Implications for Asia and Japan”) warns that Japan should oppose any temptation to impose trade barriers, such as tariffs or quantitative restrictions, on Chinese products. Although Japan will sell less to China than China sells to Japan, this is not all bad, he argues. “Japan should abandon the mercantilist view that production and exports are good, while consumption and imports are bad,” Kwan writes (p. 26). Instead, Japan should sup-

port an international division of labor, one that relocates labor-intensive work to China that will result in lowering the cost of production and goods. “Equally important,” continues Kwan, “the resulting growing prosperity in China will promote stability in the Asia-Pacific region, and thus Japan’s national security. Indeed, the latest financial crisis in Asia vividly illustrates that it is in Japan’s own national interest to be surrounded by affluent and peaceful countries rather than by poor and unstable ones” (p. 26). Since Japan’s population is rapidly aging, perhaps it makes sense that China does more of the producing of consumer goods.[4]

In actuality, trade between Asian countries is largely subsumed by Asia’s trade surplus with the United States. Lester C. Thurow, elsewhere, suggests that Japan is the “fault line” across world trade and the Pacific Rim because of the trade surplus it has with the United States and Asian countries. The Pacific Rim’s trade deficit with Japan is actually larger than the one between the United States and Japan. But in actuality the trade between Japan and the Pacific Rim is sustained by the trade deficit the United States has with those latter countries. “The problem,” writes Thurow, “is that no one outside of a few raw material producers (or those who restrict Japanese imports) runs trade surpluses with Japan. Everyone else runs large trade deficits with Japan, which they finance by running even larger trade surpluses with the United States.” Thurow adds, “There is a simple bottom line. Without an American trade deficit, there can be no Japanese trade surplus—no matter how competitive Japanese products are, no matter how much the rest of the world would like to buy them. But any pattern of world trade that depends upon permanent U.S. deficits or foresees permanent Japanese surpluses is simply not viable in the long run.” To argue otherwise, writes Thurow, is “to defy the fundamental rules of economic gravity.”[5] If Japan continues to lose more of its trade to China, the United States will nonetheless continue to be the major sustainer of Asia’s overall trade surplus. Are these developments the win-win situation Kwan makes it out to be?

China’s admittance to the WTO is the topic of focus by Deepak Bhattachali and Masahiro Kawai (“Implications of China’s Accession to the World Trade Organization”). In the short-term, they conclude, WTO rules will be a challenge for China, but “WTO accession is clearly a net gain to the Chinese economy in the medium to the long run, with China’s share of world trade expected to double” (p. 95). As for the impact of China’s WTO membership on the economy of Japan, they predict minimal

ramifications (p. 92). Since 1999, when it became apparent that China would become a member of the WTO, there has been an increase in foreign investment in China (p. 54). In certain respects, Japan is in the position to indirectly benefit from its years of investing in China. But according to Bhattasali and Kawai, if Japan wants to reap the benefits of China's accession to the WTO then it will need to invest more for increasing the basis for intra-firm trade (p. 93).

One must wonder what WTO membership means for the future of Chinese banks. The Chinese banking system is being reformed slowly while suffering from an estimated \$500 billion in nonperforming loans.[6] Asian banks in general have not been doing well, but with China nonperforming bank loans become government debt.[7] According to *Wall Street Journal* analysts, "China's big four state-owned banks, which account for the vast majority of all loans in China, are sitting on a pile of nonperforming loans that are almost equal in value to the debt quagmire that Japan's ailing banks are caught up in. Estimates of the debt burden raging through China's banking system range from \$450 to \$500 billion." [8] Eventually, China will not be able to restrict foreign participation in its banking sector, which may in the end help China make more fiscally sound decisions. On the other hand, China was largely unaffected by the Asian banking crisis because it was not so interlinked with outside banking.

Yasuko Kameyama ("Will Global Warming Affect Sino-Japan Relations?") suggests that environmental concerns are helping Japan and China achieve greater bilateral cooperation. Since about the 1990s, culminating with the Koyoto Protocol of 1997, Japan has linked environmentalism with its national security or comprehensive security (*sg anzen hosh*) (p. 142). Japan and China, however, are at different stages of development. Whereas Japan could conceivably (but with difficulty) reduce some of its carbon dioxide emissions (which contribute to global warming), China will have to greatly increase its emissions if it ever hopes to become a developed nation. China's 1996 carbon dioxide emissions levels were about 14.1 percent whereas Japan's were 4.9 percent. However, China's per capita of carbon dioxide emissions was 2.6 tons versus Japan's 9.8 tons (p. 141). As with China, it will be difficult for Japan to decrease its emissions in the foreseeable future. More positively, Japan can help China reduce its growing pollution level. Through grants and loans Japan can provide technology for mitigating China's sulphur emissions and introduce energy sufficiency in Chinese industries. According to

Kameyama, Japan's pursuit of greater Northeast Asian regional environmental cooperation is one that is forging beneficial ties with China as well as other neighboring countries.

Some have suggested that the "Asian miracle" is doomed because of its dependence on oil. Even China, beginning in 1993, has become an importer of oil. Japan imports practically all of its energy needs.[9] In 1994 Japan imported 94.7 percent of its energy supply (p. 141). Kameyama notes that Japan is looking for ways to reduce China's oil demand, including the possibilities of nuclear power plants. The Asia Pipeline Study Group, started by Japanese government leaders and businessmen in 1997, proposes the construction of a gas pipeline from Siberia down to China, Korea, and Japan. These energy concerns are not thoroughly analyzed in *Japan and China: Cooperation, Competition and Conflict*, but they seem to point to the region's Achilles' heel, its future vulnerability. The seriousness of the situation is underscored by the 2003 crisis with North Korea over its nuclear power plant, which is basically an energy problem. In the short-term Japan and China can enjoy a constructive partnership regarding fuel conservation and pipeline proposals, but when energy becomes scarcer and prices rise, then matters could become conflictive. Since China's oil consumption increases each day, there will be no easy solutions.

This book represents the fruit of a January 2001 conference titled "Japan and China: Economic Relations in Transition," and organized by the German Institute for Japanese Studies and the Fujitsu Research Institute, both of Tokyo. This book is for specialists, primarily economists. It was not written for a broader audience. Moreover, since the volume sells for 50.00 pounds, it is over-priced. Nonetheless, researchers interested in Japan and China will find plenty of material to glean from these writings.

There is one last comment. Considering that this book is primarily about economics, it is disappointing to see a blind acceptance of China's official growth rate of about 8 percent annually (p. 72). It would have been beneficial for the reader to see some analysis on this reporting, as some economists think this is an exaggeration. In this day and age of accounting "irregularities" (all of which cannot be exclusive to corporate America and its "culture of Enron") no one, especially economists, should take such numbers at face value.

Notes

- [1]. Charles Hutzler, "Deal Shows Weakness of China's Arms Industry," *Wall Street Journal* (28 June 2002), p. A11. Also, see the editorial "Asia's fundamental challenge," *Taiwan News*, 17 July 2001, <www.etaiwannews.com>.
- [2]. John Bryant Starr, *Understanding China: A Guide to China's Economy, History, and Political Culture*, rev. ed. (New York: Hill and Wang, 2001), p. 94.
- [3]. "Japanese Exports Soared to a Record in 2002," *Wall Street Journal* (28 January 2003), p. A14.
- [4]. By 2007, about 20 percent of Japan's population will be over age 65, and in actuality, China is faced with a similar demographic reality—by 2010 its elderly will represent 22.7 percent of its population. See Sebastian Moffett, "For Ailing Japan, Longevity Begins To Take Its Toll," *Wall Street Journal* (11 February 2003), p. A1.
- [5]. Lester C. Thurow, *The Future of Capitalism: How Today's Economic Forces Shape Tomorrow's World* (New York: William Morrow and Company, Inc., 1996), pp. 194-196.
- [6]. Peter Wonacott, "China Shuns a Financial Overhaul," *Wall Street Journal* (28 January 2003), p. A14.
- [7]. Sarah McBride, "Bad Debt Still Looms at Asian Banks," *Wall Street Journal* (6 February 2003), p. A16.
- [8]. Kathy Leggett and Kathy Chjen, "For China, Question of Debt Is Crucial," *Wall Street Journal* (20 January 2003), p. A2.
- [9]. Joseph Wayne Smith, Graham Lyons, and Gary Sauer-Thompson, *The Bankruptcy of Economics: Ecology, Economics and the Sustainability of the Earth* (London and New York: Macmillan and St. Martin's Press, 1999), p. 100.

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