Analysis of Japan's trade relations with China

Maoping Wang
School of Humanities and Public Administration, Baise University,Guangxi,China
***Corresponding author, e-mail: wangmaoping@163.com**

Abstract

Since the beginning of this year, Japan has followed the United States' strategy of "containment and decoupling" from China, politically intervening in trade with China, which has cast a shadow over the trade between the two countries. This article uses empirical analysis to analyze Japan's trade relations with China in the past five years from both quantitative and structural perspectives. Based on this, it examines the recent impact of Japanese government policies on trade with China. Finally, the article believes that China should firmly promote open and cooperation in the economy, continuously improve the foreign investment environment, and accelerate the construction of a world-class "big market" where all countries have access to each other; Politically practice the concept of "A community with a shared future for mankind" and gradually enhance mutual trust. These are of great significance for the stability and development of China's foreign trade relations, including Japan.

Keywords

Japan's trade with China;Interdependent;Containment and decoupling;World-class"big markets"

1.Introduction

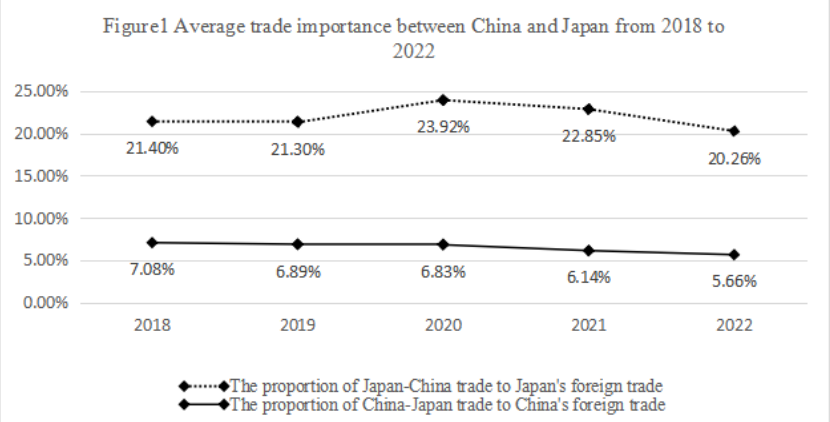
Since China's reform and opening up in the late 1970s, Japan's trade with China has generally maintained a continuous development trend. After Trump took office in 2017, the United States adopted a "containment and decoupling" strategy towards China. As a traditional ally, Japan actively promoted its so-called "economic security strategy" in response to the United States, and economic security towards China became the core of its policy, casting a shadow over trade with China. The following article focuses on a comprehensive investigation of Japan's trade with China in the past five years, analyzes the impact of recent Japanese government policies on trade with China, and finally provides corresponding policy recommendations on how China should respond.

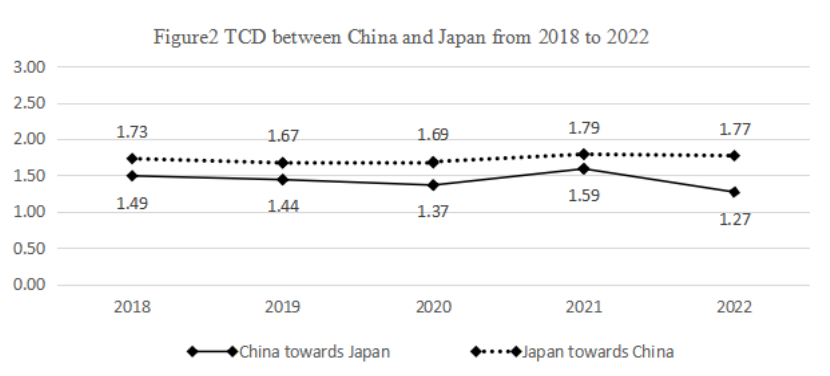
2.Comprehensive Analysis of Japan's Trade with China in the Past Five Years

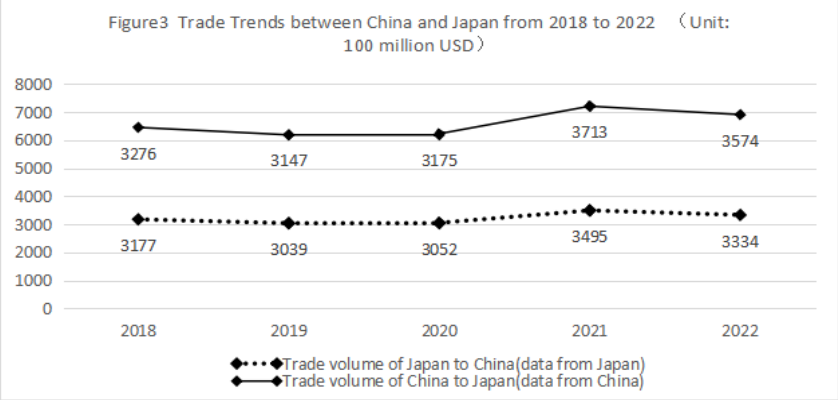
Over the past 40 years of China's reform and opening up, Japan's trade with China has achieved significant and high-quality development in both trade volume and trade structure. In terms of trade volume in the past five years, The importance of trade(IOT)with China continues the trend since 2007 when China has become Japan's top foreign trade partner, and trade with China continues to account for more than 20% of its foreign trade (as in Figure 1. Of course, in terms of country, Japan is China's second largest trade partner after the United States, with an average of 6.5% of China's foreign trade volume in the past five years). From the perspective of trade combined degree(TCD),Japan's exports to China far exceed the world average level, which

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is 1.73 times higher than the world average level (relatively speaking, as an exporting country, China's export combined degree with Japan has also exceeded the threshold 1 representing the degree of closeness). The importance and export combined degree with China indicate that although China-Japan trade is in a "interdependent" state, Japan is relatively more dependent on China ,as in Figure 2. However, from a trend perspective, Japan's trade volume with China reached a top point in 2021, and in 2022, both absolute trade







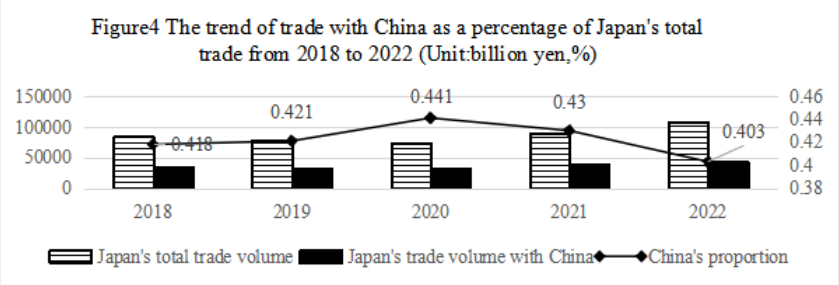
volume, importance, and export combined degree began to decline as in Figure 3.

Figure 1-3 Data source: Calculated based on data from the United Nations Commodity Trade Database. https://comtrade.un.org/data/

We have noticed that in the period of 2020-2022, Japan's total trade volume with other countries and regions continued to grow (as in Figure 4. In 2022, the yen depreciated significantly against the US dollar,

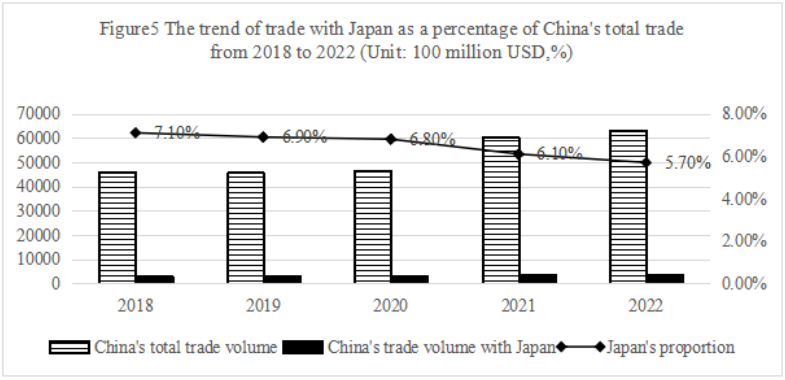
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from 115 yen at the beginning of the year to 151 yen in October, and returned to 130 yen at the end of the year. Therefore, although the trade volume with China in yen increased significantly, its proportion to its total foreign trade still decreased significantly)As of the first half of 2023, this relative downward trend in Japan's trade with China continues (as in Table 1). According to Japan's Ministry of Finance and Trade statistics, its total import and export volume increased by 1.8% year-on-year from January to June 2023, but its import and export volume to China decreased by 1.8% year-on-year. According to the monthly data statistics of the National Bureau of Statistics, while China's total import and export volume increased by 2.1% year-on-year from January to June 2023, the import and export volume to Japan decreased by 11.4% year-on-year.According to statistics from both countries, Japan's trade with China is still in a relatively down-



ward trend.

Figure 4 Data source: compiled According to trade statistics by the Ministry of Finance of Japan (www.



mof.go.jp)

Figure 5 Data source: Calculated based on data from the United Nations Commodity Trade Database.

Table 1: Japan's Trade with China from January to June 2023

Japan Statistics（Unit：Billion yen）		**China Statistics**	
Total amount of foreign trade in goods	101,668	Total amount of foreign trade in goods（Trillion yuan）	20.1
year-to-year growth	1.80%	year-to-year growth	2.10%
Total trade volume of goods with China	19,928	Total trade volume of goods with Japan（100mnUSD）	1,570
year-to-year growth	-1.80%	year-to-year growth	-11.40%

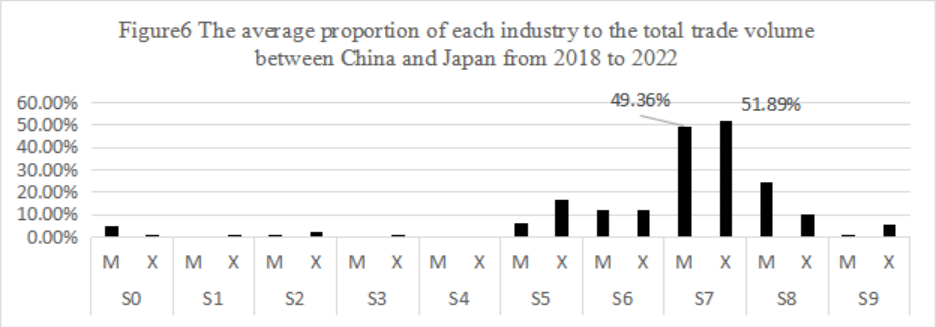
https://comtrade.un.org/data

Table 1 Data sources: Ministry of Finance of Japan ,National Bureau of Statistics of China.

From the perspective of the industrial structure of Japan's trade with China, Figure 6 shows that from 2018 to 2022, Japan's trade with China was mainly concentrated in the SITC5-8 category of manufactured goods

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trade, especially in the capital and technology intensive SITC7 category, which is mainly machinery, accounting for 50.6%. Moreover, the import and export of this type of industry are highly similar, which is a typical intra industry trade, and Japanese companies in China have played an important role. This can be confirmed by combining the data from Table 2, Table 3, and Figure 6. The import and export trade volume of Japanese enterprises in China accounts for as much as 30% to 40% of China's imports and exports to Japan, and 90% of the import and export volume is towards their parent companies, with some to third countries. This indicates that the production and operation of Japanese multinational corporations in China not only affects Japan's trade with China, but also has a significant impact on the trade of third countries. Obviously, Japanese multinational corporations organize production and manufacturing in China as the "world's factory", utilizing its global sales network to export to countries around the world, which objectively helps China become the world's largest exporter. Japan's highly correlated and intertwined trade structure between imports and exports to China means that restricting exports to China would greatly affect Japan's own imports from China, which may have a certain restrictive effect on the Japanese government's trade policy towards China. In the past, the politics of the two countries were relatively cold, but the economy were not cold. This can also be understood as the fact that Japan's trade relations with China under the rule



of market economy have played a certain role in its political relations with China.

Figure 6 Data source: calculated based on data from the United Nations Commodity Trade Database.https://comtrade.un.org/data/

Table 2: Sales destinations of Japanese enterprises in China and their proportion in export trade with Japan in 2021 (billion yen)

amount	Total sales	exports to japan	To the parent company	Local China	Export to third countries	China's exports to Japan
amount	59,636	7,638	6,936	36,699	15,299	20,381
Proportion	100%	12.81%	11.63%	61.54%	25.65%	37.48%

Table 3: Procurement sources of Japanese enterprises in China and their proportion in import trade with Japan in 2021 (billion yen)

amount	Total procurement	imports to japan	To the parent company	Local China	Import to third countries	China's imports to Japan
amount	39,050	10,601	9,621	24,507	3,942	17,984
Proportion	100%	27.15%	24.64%	62.76%	10.09%	58.95%

Table 2-3 Data sources: compiled Base on data by the Ministry of Economy, Trade and Industry of Japan. http://www.meti.go.jp/

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3.The Impact of Japanese Government Policies on Trade with China

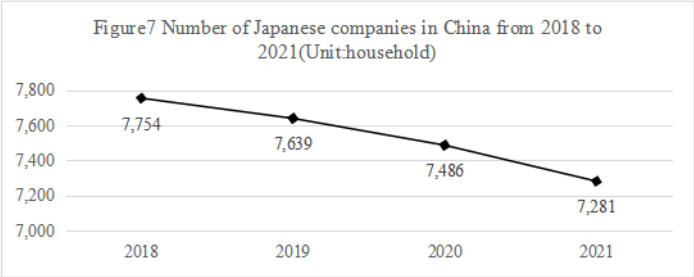
Japan's trade with China has been relatively declining in the past two years, which is closely related to the Japanese government's trade policy with China. Let's try to analyze from both economic and political perspectives. Firstly, from an economic perspective, the outbreak of the COVID-19 at the beginning of 2020 has seriously hindered the normal operation of international flow of people, logistics and international trade, and the drawbacks of regionalization and even globalization of the supply chain formed in the context of the original economic globalization have been highlighted as never before. In the face of the sudden COVID-19 blocking economic activities, the Japanese government quickly introduced a series of policies to promote supply chain restructuring, including "emergency economic countermeasures" and "overseas supply chain diversification support cause", to ensure the sustainability and stability of economic activities.

On the one hand, it induces Japanese companies in China to return to Japan and migrate to Southeast Asia and other regions. In April 2020, an "emergency economic countermeasures" was introduced, allocating 220 billion yen to promote the return of Japanese manufacturing enterprises to local production. Under the guidance of this policy, a total of 69 key component enterprises, including automotive parts, semiconductors, chemical raw materials, etc., have relocated their production bases from China to Japan, accounting for 33.9% of the total number of applied projects, including well-known Japanese manufacturing enterprises such as Kawasaki Heavy Industry and Shinetsu Chemical.In the low-end manufacturing industry, some domestic production chinas in China are being induced to migrate to Southeast Asian countries with certain advantages in population and resources. From 2020 to 2022, Japan conducted five rounds of "Overseas Supply Chain Diversification Support cause" activities to support Japanese companies in achieving supply chain diversification in Southeast Asia. As a result, seven Japanese companies engaged in automotive parts production, including Seiko, Epson, and Dongbang Industries, have relocated their production bases from China to ASEAN countries such as Indonesia, Vietnam, and the Philippines. The RCEP agreement (Regional Comprehensive Economic Partnership Agreement), which officially came into effect on January 1, 2022, further facilitates the restructuring of Japan's supply chain within the region. restructuring of the supply chain has led to a decrease in the number of Japanese companies and employees in China. According to incomplete surveys conducted by the Japanese Ministry of Economy, Trade and Industry(METI), the number of Japanese companies and employees in China has been on a downward trend in the past five years (as in Figure 7-8).

On the other hand, repositioning China as a "world factory" and transforming it into both a "world factory" and a "world market", with a greater emphasis on sales in the Chinese market. According to the results of the "Overseas Japanese Enterprise Survey" conducted by Japan External Trade Organization(JETRO), 77.9% of surveyed Japanese companies in 2021 believed that their sales situation in China had significantly improved, while 59.6% of Japanese companies stated that they would continue to expand their sales functions in the Chinese market in future. In addition, 40% of Japanese companies have chosen to adjust the procurement sources of components and raw materials from Japan to China, reflecting the adjustment of production and sales methods of Japanese companies in China.The transformation of Japanese funded enterprises towards sales in the Chinese market is also one of the reasons why Japan's trade share with China has continued to decline in the past two years. Taking 2021 as an example, Japanese companies accounted for over 60% of their total sales in China, reflecting that China is not only a "world factory", but

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also increasingly transforming into an important "world market" (as in Tables 2 and 3). If the restructuring of the industrial chain and the transformation towards sales in the Chinese market are only induced by the government, and the final decision-making power is still handed over to enterprises, essentially driven by the objective laws of the market economy to allocate resources, then recently, the Japanese government has followed the United States' strategy of "containment and decoupling" towards China, implemented the so-called "economic security guarantee strategy", and artificially intervened to restrict trade with China, which is due to subjective political ideology.



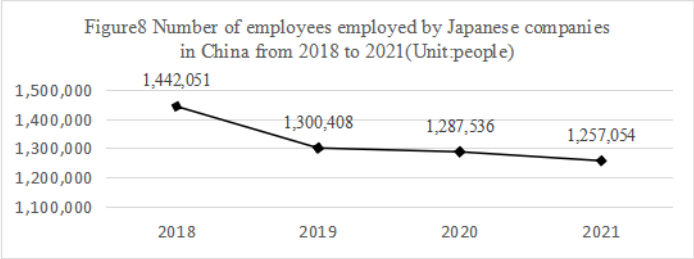


Figure 7-8 Data source: compiled based on data from the Ministry of Economy, Trade and Industry of Japan(METI).http://www.meti.go.jp/

From a political perspective, throughout the history of Japan's trade with China after the founding of the People's Republic of China, it gradually established and followed the principle of "political and economic separation" in diplomatic relations with China. However, with the continuous upgrading of the Trump administration's "containment and decoupling" strategic measures against China after 2017, the Japanese government has also abandoned this long-standing diplomatic principle and elevated economic security with China to a national strategy, Direct administrative intervention has been initiated in key industrial areas. In 2021, Japan revised its export control regulations again, including metal manufacturing equipment, CNC machine tools, wireless communication equipment, turbine engines, rocket engines, and other products into the scope of export control to China.On October 8, 2021, in his first policy speech, Kishida revised the National Security Strategy and stated that it would "decisively promote new era issues such as economic security", emphasizing that the "third pillar" of Japan's growth strategy is economic security, Propose to implement measures to ensure strategic materials and prevent technology outflow, build a self-disciplined economic structure, formulate relevant laws, create a solid supply chain, and promote Japan's economic security.In May 2022, the Japanese parliament passed the "Economic Security Promotion Law" to protect supply chains, core infrastructure, cutting-edge technologies, and patents.On May 23, 2023, a specific timetable for the implementation of semiconductor export control measures was announced.

This government's direct use of administrative means to intervene and restrict trade in the future blatantly demonstrates the political will of the Japanese government. Faced with China's economic rise, Japan also

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hopes to enhance its voice and influence in the Indo Pacific region. As an ally of the United States, by cooperating with the United States' strategy of containment and decoupling from China, imposing trade restrictions and technological blockades on China, and collaborating on building new supply chains in the region and even globally, this not only has a strong impact on Japan's trade with China, but also on China's overall foreign trade pattern. It can be said that the Japanese government has promoted the restructuring of the supply chain,The COVID-19 has only played an objective role in promoting and accelerating ,In essence,it is driven by the political ideology of the Japanese government. With the "containment and decoupling" strategy launched by the United States, it intends to artificially curb and cut off the original supply chain generated by economic globalization, and rebuild a supply chain that it believes is safe and reliable.

The trade pattern between Japan and China is formed based on objective market economy laws , and is the result of market selection. For Japan, China is its largest trading partner, and Japanese companies have not only expanded their production through China, the "world factory", but also achieved considerable sales in China, a growing world-class "market", benefiting from China in both production and consumption. This is difficult to achieve in other developing or developed countries at the same time, and This is also a unique comparative advantage that China has. From this perspective, in the context of high dependence on trade with China, as a comprehensive actor pursuing political and economic interests, the Japanese government follows the United States, and its political intervention in trade with China is "to some extent" limited. It is not easy or overnight to expect government intervention to cut off China in key supply chain areas and fundamentally change the existing trade pattern. This at least provides us with a strategic buffer period to respond. Of course, we should also see that Japan is highly dependent on trade with China but also strives to cut and rebuild its supply chain in key areas;Japan's export controls on China would rather backfire on itself, and its determination to contain China cannot be underestimated. As China's second largest trading partner, the importance of Japan's trade with China is self-evident. Looking towards the future, how to stabilize and develop bilateral trade has become a major issue that needs to be considered at present.

4.China's response measures: firmly opening up and cooperation and enhancing political mutual trust

Japan belongs to an export-oriented economic structure, utilizing world factories to expand production and sell in the world market to maintain high levels of income. As the largest trading partner, trade with China is crucial for it. However, politically, due to strategic doubts about China, administrative intervention restricts trade with China..Therefore, economically, China should adhere to the concept of "embracing the world" and firmly adhere to the concept of opening up and cooperation with the outside world; Politically adhering to the concept of "a community with a shared future for mankind", enhancing trust ,to respond "containment and decoupling" strategy against China led by the United States, including Japan.

Firstly, in terms of macro strategy, we should firmly resist the trend of anti globalization, focus on upgrading our industrial structure, further optimize the investment environment, and firmly promote high-level open and cooperation. Currently, China is facing a global reconfiguration of production factors .China should fully explore and utilize its resource advantages in industrial infrastructure, talent dividends and other aspects,to further promote high-level opening-up and cooperation with the outside world.

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Secondly, actively exploring cooperation opportunities in emerging fields such as technological innovation, energy conservation and environmental protection, digital economy, and third-party markets, attracting advanced production factors from around the world, including Japan, to allocate to China, to build a more high-end "world factory". Japanese enterprise investment based on substantial returns will undoubtedly continue to be an important driving force for the development of trade between the two countries.

thirdly, looking towards the future, the market is the most scarce and important resource. As the world's second-largest economy, China's per capita national income has just surpassed $10,000, and there is enormous potential demand in the future. Therefore, while improving the level of opening up and cooperation with the outside world, actively removing various barriers and thresholds that hinder the formation of a unified large market, accelerating the establishment of a national unified large market, and promoting China's transformation towards a world-class "big market" direction. Holding the two major weapons of "world factory" and "world market" is an important weapon for future response to the United States' "containment and decoupling" strategy.

5.Conclusion

Politically practice the concept of "A community with a shared future for mankind" and enhance political mutual trust. Japan's cooperation with the United States' "containment and decoupling" strategy and implementation of the "economic security strategy" to restrict trade with China is still fundamentally due to a lack of political trust in China. As a traditional regional power, Japan has direct pressure from China's rise, which is different from the United States, Europe, and ASEAN. "Economic mutual benefit" is not the entirety of "human needs".Simply emphasizing the concept of" mutual benefit and win-win "economic cooperation is not sufficient. We need to practice more of the shared values of" A community with a shared future for mankind ", such as peace, development, justice, and other common human values, to resolve doubts and enhance political mutual trust, This is of great significance for the stability and development of China's foreign trade relations, including Japan.

References

[1] The Importance of Trade is expressed as the ratio of total bilateral trade to a country's total foreign trade. It can be understood as the response cost that two countries need to pay when adjusting bilateral trade, and can be used to measure a country's vulnerability to bilateral trade.

[2] The Degree of Trade Combine (in terms of exports)=(B country's exports to A country/B country's total exports)/(world's exports to A country/world's total exports), which can be used to measure the relative closeness of trade relations between the two countries. Generally speaking, if the Degree of Combine is greater than 1, it indicates that A and B have close trade ties. The stronger the Degree of Combine, the greater the value, indicating that the two countries have closer trade ties. In reality, countries place more emphasis on exports compared to imports, so this article uses exports as a measure of degree.

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