The Impact of China's Comprehensively Deepening Reform on the Economic Cooperation between China and Japan

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I. China’s Comprehensively Deepening Reform and Opportunities

II. Industrial Characteristics in Different Periods and Industrial Policies in Japan

III. Main Fields in Economic Cooperation between China and Japan
I  China’s Comprehensively Deepening Reform and Opportunities

1. The Connotation and Significance of China’s Comprehensively Deepening Reform

1.1 The Eighteenth National Congress of the Communist Party of China

The 18th National Congress of the CPC was hold on November 8, 2012.

The report on “Firmly March on the Path of Socialism with Chinese Characteristics and Strive to Complete the Building of a Moderately Prosperous Society in All Respects” was issued.
I  China’s Comprehensively Deepening Reform and Opportunities

1.1 The Eighteenth National Congress of the CPC

- Accelerating the Improvement of the Socialist Market Economy and the Change of the Growth Model.

- Better facilitate the development of the real economy.

- Make the economy more demand-driven.

- Promote the sound growth of strategic emerging industries and advanced manufacturing industries.

- Develop and expand the service sector, especially modern service industries.

- Promote harmonized development of industrialization, IT application, urbanization and agricultural modernization.
The Third Plenary Session of the 18th CPC Central Committee

The Third Plenary Session has been held from November 9 to 12, 2015.

“The Decision on Major Issues Concerning Comprehensively Deepening Reforms ” was adopted.
The Third Plenary Session of the 18th CPC Central Committee

- The Decision pointed out that Reform and Opening-up has been a crucial choice.
- China must stick to the socialist market economy as the orientation of its reform, must promote social fairness and justice and must seek to advance the well-being of the people.
- The general purpose of comprehensively deepening reform is to develop socialism with Chinese characteristics, to advance modernization in the state governance system and governance capability.
- The basic economic system should evolve on the decisive role of the market in resource allocation.
- The reform of the economic system is the focus of all the efforts to deepen the all-round reform.
I. China’s Comprehensively Deepening Reform and Opportunities

1.2 The Third Plenary Session of the 18th CPC Central Committee

Promote the development of socialism with market economy, ecological progress, democratic politics, a harmonious society, and advanced culture.
I  China’s Comprehensively Deepening Reform and Opportunities

1.3 The Fifth Plenary Session of the 18th CPC Central Committee

The Fifth Plenary Session of the 18th CPC Central Committee was held from October 26 to 29, 2015.

The Fifth Plenary Session of the 18th CPC Central Committee deliberated on and approved the Central Committee's Proposal for Formulating the 13th Five-Year Plan for National Economic and Social Development (2016-20)
I  China’s Comprehensively Deepening Reform and Opportunities

1.3 The Fifth Plenary Session of the 18th CPC Central Committee
New targets in building a moderately prosperous society in all respects were put forward at the session:

- To double 2010 GDP by 2020 as well as per-capita income of both urban and rural residents,
- To upgrade manufacturing and promote advanced industries,
- To significantly increase the contribution of consumption to economic growth,
- To accelerate urbanization,
- To achieve significant progress in agricultural modernization,
- To raise living standards and the quality of life, eliminate rural and regional poverty and rehabilitate all poor counties,
- To improve citizens’ moral integrity and promote cultural progress,
- To improve environmental protection,
- To further modernize governance systems.
I China’s Comprehensively Deepening Reform and Opportunities

2. Economic System Reform is the Focus of the Comprehensively Deepening Reform

The third Plenary Session of the 18th CPC Central Committee stressed the focus of a new round of comprehensively deepening reform:

※ Focus on

- the economic system reform
- deepen and promote the reform of administrative systems
- activate markets unceasingly
- let the market play the decisive role in allocating resources
- let the government play its functions better
I China’s Comprehensively Deepening Reform and Opportunities

2. Economic System Reform is the Focus of the Comprehensively Deepening Reform.
   ※ Promote a new round of opening to the outside world, build a new system of open economy, and create the new situation of a high level of opening to the outside world.
   ※ Play the basic role of consumption and the key role of investment, increase the main engine function of domestic demand driving economic growth.
   ※ Put innovation as the development of the country's core position, promote the close integration of science and technology with economic and social development, push the high jump of industry to the global value chain, and support and lead economic structure optimization and upgrading with innovation.
   ※ Improve the integrated system and mechanism of urban and rural development, break the urban and rural dual structure, narrow the urban-rural gap, and promote the human-centered new urbanization.
I  China’s Comprehensively Deepening Reform and Opportunities

3. Economic Development Strategies and Measures

3.1 One Belt and Road

The Silk Road Economic Belt and 21st Century Maritime Silk Road initiatives was put forward in September 2013.
I China’s Comprehensively Deepening Reform and Opportunities

3.1 One Belt and Road

A major task

Investment and trade cooperation

four principles

openness and cooperation
harmony and inclusiveness
market operation
mutual benefits
I  China’s Comprehensively Deepening Reform and Opportunities

3.1 One Belt and Road

- promote pragmatic and win-win cooperation
- a network of railways and highways and other forms of infrastructure
- oil and gas pipelines
- power grids
- aviation routes in the Eurasian area
- Internet networks
I  China’s Comprehensively Deepening Reform and Opportunities

3.1 One Belt and Road

- Asian Infrastructure Investment Bank (AIIB)
- the Silk Road Fund
- In 2014

- An important platform supporting regional connectivity

- Investment in sectors
  - Energy
  - Transportation
  - Urban construction
  - Logistics
  - Education and health care
It have pointed to the key tasks that will form the government’s blueprint for development over the next five years.
I China’s Comprehensively Deepening Reform and Opportunities

3.2 The 13th Five-Year Plan

- maintain medium-high growth
- speed up the urbanization process
- give domestic consumption full play in driving the economy
- improve people’s livelihood

A “moderately prosperous society” by 2020
I China’s Comprehensively Deepening Reform and Opportunities

3.2 The 13th Five-Year Plan

The Plan highlights the ideas:

- innovation
- coordination
- green development
- opening up
- sharing
3.3 Urbanization in China

The registered urban population is expected to reach around 45 percent by 2020. The purpose of urbanization is to promote the regional balanced development.
China’s Comprehensively Deepening Reform and Opportunities

3.3 Urbanization in China

The specific development goal of “three 100-million-people tasks”

- To enable the 100 million migrant farmer workers to settle down in cities and become real city residents by 2020.
- To accelerate the urbanization process of the central and western regions, guiding 100 million farmers to enter the nearby towns and cities voluntarily.
- To concentrate on rebuilding the run-town areas and unsafe buildings in cities to solve the housing problem for 100 million people.

China's market with rapid advance of urban-rural integration and fast-growing residents' income will create a huge potential for the world economic growth.
I. China’s Comprehensively Deepening Reform and Opportunities

3.4 A New Normal of China’s Economy

The economy has shifted gear from the previous high speed to a medium-to-high speed growth.

The economic structure is constantly improved and upgraded.

The economy is increasingly driven by innovation instead of input and investment.

A New Normal of China’s economy
3.5 Supply-side Structural Reform

- Supply-side structural reform means starting from elevating the supply quality, then restructuring the economy, reallocating resources and expanding effective supply.

- The major tasks are reducing production capacity, unloading inventory, deleveraging, lowering cost and filling the short board of the economy. Such reforms aim to reduce noneffective and low-end supply while expanding effective and medium-to-high-end supply to boost productivity.

- “Demand side” and “supply side” are not the relationship of either/or, but effectively combine both supply and demand.
China’s Comprehensively Deepening Reform and Opportunities

4 The Opportunities Brought by China’s Economy Development

§ China’s transitions from investment-led to a consumption-based economy will be critical.
§ The growth of the service sector and development of new-type industries both are the result of China’s economic transition and the foundation of future growth.
§ Since its economic growth will rely more on innovation, technological innovation in particular, China will not only offer development opportunities to Chinese high-tech enterprises but also attract some foreign high-tech innovative enterprises.
§ Over the next five years, China's imports will exceed 10 trillion dollars, foreign investment will exceed 500 billion dollars, and outbound tourism will be more than 400 million people. This will bring huge opportunities to the mutually beneficial cooperation between China and other economies such as Japan.
1. Japan’s Economic Growth

Japan’s GDP growth rate
II Industrial Characteristics in Different Periods and Industrial Policies in Japan

1. Japan’s Economic Growth

Industrial Structure
Industrial Characteristics in Different Periods and Industrial Policies in Japan

2. Industrial Characteristics in Different Periods

2.1 From 1945 to 1955: Dominated by Labor-intensive Industries

The post-war recovery period.

Manufacturing industry and internal labor-intensive industry were dominated.

domestic resources
• Materials
• Workers
• Funds
• Foreign exchange
• Foreign capital

two critical industries:
• steel
• coal
## II Industrial Characteristics in Different Periods and Industrial Policies in Japan

### 2.1 From 1945 to 1955: Dominated by Labor-intensive Industries

<table>
<thead>
<tr>
<th>The government was constructing a new relationship with industry:</th>
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<tr>
<td>• control</td>
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<td>• protection and nurture</td>
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<tr>
<th>The industries targeted for rationalization:</th>
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<tr>
<td>• steel</td>
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<tr>
<td>• coal</td>
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<tr>
<td>• shipbuilding</td>
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<td>• electric power</td>
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<td>• synthetic fibers</td>
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<td>• chemical fertilizer</td>
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<table>
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<tr>
<th>1950s, ‘rationalization” plans became the center of policy.</th>
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<tr>
<td>• the Enterprise Rationalization Promotion Law</td>
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<td>• the Electric Power Development Promotion Law</td>
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<td>• the First Steel Rationalization Plan</td>
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<td>• the Long-Term Credit Bank Law</td>
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2.2. From the mid-1950s through 1970s: the Rapid Development of Heavy and Chemical Industries

- The period of rapid economic growth between 1955 and 1961 paved the way for the “Golden Sixties”.

- From the mid-1960s through the 1970s with the arrival of a mass-consumption society, as technological innovations spurred the expansion of consumer durables as television sets, refrigerators, and automobiles.

- By establishing the strategic goal of “state-building by trade, and catching up with Europe and the United States”, Japan achieved the goal of taking heavy industry with great demand elasticity and high product added value as the leading industry, thus driving the development of other industries.
2.2. From the Mid-1950s through 1970s:
the Rapid Development of Heavy and Chemical Industries

The driving force of Japan's industrial structure upgrading towards heavy industry mainly came from the market demand.

The heavy and chemical industries were brought close to people's daily lives. Such consumer durables industries as automobiles and electric machinery and appliances.
Industrial Characteristics in Different Periods and Industrial Policies in Japan

2.2. From the mid-1950s through 1970s: the Rapid Development of Heavy and Chemical Industries

The period from the mid-1960s through 1970s is the famous “rapid growth” period of the Japanese economy. Industrial structure transformed dramatically from agriculture to manufacturing and from light industries to heavy industries. This stage with high-speed growth can be divided into two stages:

From 1956 to 1965: raw materials' industry of the heavy and chemical industry was the development focus, and the output value proportion of chemical, oil, steel, metal products increased significantly.

From 1966 to 1970: the industrial characteristic of Japan beginning to transform to finish-processing-industrialization has been very obvious.

The character of industrial structure from 1965 to the first oil shock was that electrical machinery, wholesale and retail industry, construction industry, real estate and service industry went up significantly.
2.2. From the mid-1950s through 1970s: the Rapid Development of Heavy and Chemical Industries

The main direction of this adjustment was developing knowledge intensive industry and reducing the consumption of resources and energy.

- Research and development intensive industry (computer, semiconductor, etc.).
- High assembly industry (communications equipment, office equipment, etc.).
- Knowledge industry (information processing, software, etc.).
II Industrial Characteristics in Different Periods and Industrial Policies in Japan

2.2. From the mid-1950s through 1970s:

the Rapid Development of Heavy and Chemical Industries

- Japan, besieged by the oil crisis and various pollution and quality-of-life problems, began to transform its industrial policies, attempting not only to make domestic industries strong enough to withstand international competition but also to pursue objectives other than growth.

- The government’s new objectives included achieving pollution control, or industrial development harmonious with environmental needs, and stricter application of anti-trust policies.

- Japanese industrial policies began to move toward the use of the market mechanism and deregulation.
Ⅱ Industrial Characteristics in Different Periods and Industrial Policies in Japan

2.3 Both Technology-intensive Industry and Tertiary Industry were Rising in the 1980s

The position of leading manufacturing were taken by advanced processing-and-assembly industries with high-value-added products such as electronics, automobiles, precision equipment and information technology.

Many Japanese companies became very strong, and thus less dependent on government for protection and subsidies.

Japan began to expand the overseas investment.

Through the 1980s, Japan was in the period stable growth.
Ⅱ Industrial Characteristics in Different Periods and Industrial Policies in Japan

2.3 Both Technology-intensive Industry and Tertiary Industry were Rising in the 1980s

Due to the trade frictions with other countries, many Japan's companies began to carry out the production and sales in the destination countries for exports.

Computers industry and robotics industry were rising. Meanwhile, service industry, financial industry had the rapid growth.

Managed the competitively troubled industries, including textiles, shipbuilding, and chemical fertilizers through such measures as tax breaks for corporations that restrained workers to work at other tasks.
2.4 Since 1990s: Science and Technology Plays an Important Role in the Development of Industry

An average rate of 1.4% for the 1990s. These economic conditions led the 1990s to be dubbed "the lost decade".

In the mid-1990s Japan began to reform its industrial structure. It developed a plan focusing on selected areas of projected growth, including telecommunications and biotechnology.

In 1997, the Japanese government proposed the Economic Structural Change and Innovation Plan facing the 21st century. It shall three aspects - international coordination, domestic demand dominance and high efficiency. The core idea was transforming from "state building by trade" to "state building by science and technology".
Ⅱ Industrial Characteristics in Different Periods and Industrial Policies in Japan

2.4 Since 1990s: Science and Technology Plays an Important Role in the Development of Industry

After the impact from the Asian financial crisis and two times of deflation, the change of Japan's industrial structure was mainly manifested in:

Service industry, transportation, communications, finance, insurance, wholesale and retail industry and other traditional service industries grew rapidly and had the great potential of continued growth.

The status of manufacturing industry as the pillar industry of Japanese economy continued to be enhanced under the stimulation of international and domestic market demand growth, but the growth potential was lower than the tertiary industry.

Electrical machinery, transport equipment, ordinary machinery as the pillar industries of manufacturing industry got the further development.
II Industrial Characteristics in Different Periods and Industrial Policies in Japan

2.4 Since 1990s: Science and Technology Plays an Important Role in the Development of Industry

The vision aims to rectify this imbalance through four shifts in government and corporate practices: industrial structure, corporate business models, globalization, role of government. The first shift including:

<table>
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<tr>
<th>Area</th>
<th>Example</th>
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<tr>
<td>Infrastructure related/system sales globally</td>
<td>Nuclear, water, railroad, etc.</td>
</tr>
<tr>
<td>Environment and energy problem solving industry</td>
<td>Smart community, next generation automobiles</td>
</tr>
<tr>
<td>Creative industries</td>
<td>Fashion, content, etc.</td>
</tr>
<tr>
<td>Medical, nursing, health, and child care services</td>
<td>Pharmaceuticals, biotechnology, natural products, etc.</td>
</tr>
<tr>
<td>Frontier fields</td>
<td>Robots, spaces, etc.</td>
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METI: Industrial Structure Vision, June, 2010
II Industrial Characteristics in Different Periods and Industrial Policies in Japan

2.4 Since 1990s: Science and Technology Plays an Important Role in the Development of Industry

- In light of the great earthquake in Japan 2011, energy use and energy efficiency also plays an important role in meeting the challenge of power supply. Strategic Energy Plan (2014) indicates Japan’s new direction of energy policy.

- Japan Revitalization Strategy, revised in 2014, provided three plans:
  - The Industry Revitalization Strategy
  - The Strategic Market Creation Plan
  - The Strategy of Global Outreach

To secure an average annual economic growth rate of around a nominal 3% or a real 2% over a “decade of revitalization” (FY 2013 – 2022).
3. Industrial Policy is an Important Impetus of Japan's industrial structure Upgrading

3.1 The Objectives of Industrial Policies and Methods Included

Masahiro Okuno-Fujiwara (1991) thought that, from 1945 to the early 1990s, there were three main objectives of industrial policy in this period:

- Providing adjustment assistance to trouble industries suffering from structural changes.
- Meeting with foreign criticisms and demands concerning Japan and trading problems.
- Encouraging R&D in private sector.
3.1 The Objectives of Industrial Policies and Methods Included

Takatoshi Ito (1997) thought the stated objectives of Japanese industrial policy has consistently undertaken policies in four major categories:

- Creating infrastructure for all industries.
- Allocating resources among industries.
- Industrial restructuring among individual industries.
- Dealing with the problems of small and medium-size firms.
3.2 The Views on Japan’s Industrial Policies

- Some see the bureaucracy as having been the most important actor guiding development.
- Some see business as having the upper hand in the government-business relationship.
- Some see industrial policy has been a key ingredient, along with several other attributes of Japanese society, policy, and business tradition.
- Some see Japan’s rapid growth was a series of technological innovations in the modernization of the Japanese economy, was achieved through reliance on the market mechanism, was achieved on the special system, customs, and behavioral style of Japanese society.
3.2 The Views on Japan’s Industrial Policies

- Japanese government formulated the industrial policy, quickly transformed the industrial structure in different periods, and determined leading industries adapted to local economic development.

- Japan achieved rapid economic growth after World War II, and the benefit from the industrial structural adjustment couldn't go unnoticed.
1. Environmental Protection, Energy Conservation and Resource Circulation

1.1 Air Pollution Control & Treatment

From the winter of 2012 until to now, a series of environmental issues, such as air pollution event in China also became a major concern for people.

PM2.5 is a factor in serious air pollution.

Japan began engaging in environmental conservation in the 1970s.
Main Fields in Economic Cooperation Between China and Japan

1.1 Air Pollution Control & Treatment

Various actions taken to reduce air pollution:
- Actively promoting renewable energy sources
  - Solar
  - Wind power
- Closing outdated factories
- Relocating heavily polluting facilities
1.1 Air Pollution Control & Treatment

- Future cooperation between China and Japan is anticipated to be in the form of technology transfer from Japan and joint research.

- It is necessary to promote joint research on a bilateral and multilateral basis. So jointing cross-border research as an international public goods should be encouraged.
1.2 Waste Disposal

- In China, nowadays’ waste disposal and recycle process is not modern and advanced enough.

The most common ways of urban waste disposal is land filling, occupying 70% of total quantity.
The second way is high-temperature composting, which contains 20%.
Very rare waste is disposed by incineration.

- Further treatment over waste disposal and recycle, there’s a big market in China waiting to be discovered.
Ⅲ Main Fields in Economic Cooperation Between China and Japan

1.2 Waste Disposal

- Encourage cooperation among various stakeholders of the two countries, including voluntary and market-based activities.

- Promote science and technology suitable for the 3Rs (Reduce, reuse, and recycle).

- Cooperating in such areas as capacity building, raising public awareness, human resource development and implementation of recycling projects.
1.3 Clean Energy and Energy Conservation

It is important for China to strive to develop and popularize energy conservation technology, promote the comprehensive utilization of energy, and improve energy efficiency.

As for clean technology, the market demand of energy conservation industry is rapidly expanding. There is still an unexplored potential in terms of experience sharing, technological cooperation, and mutual investment in this area.
1.3 Clean Energy and Energy Conservation

- Joint cooperation in science and technology between the two countries can pave the way for creating a new generation of green and smart technologies.

- It is necessary to actively promote cooperation in highly efficient utilization of fossil fuels.

- Further to promote a mechanism for dialogue and cooperation in the field of energy between the two countries.
2. Automotive Industries

- China surpassed the United States as the largest auto manufacturing and consuming country in the world measured by automobile unit production since 2009. However, in terms of the total number of registered vehicles on the road, China still falls far behind the United States and Japan.

- The Japanese automotive industry is one of the most prominent and largest industries in the world. The automotive industry represents a significant portion of Japan's economy.
2. Automotive Industries

- The Chinese market has grown to an impressive size. China is attracting attention from the global automotive industry, China is a fast-growing economy with considerable potential in domestic and export markets.

- *Nissan, Toyota, Honda and other auto corporations* had entered China market after another from 1990s.

- Natural demand will continue to expand in the next few years, the Chinese car industry can be described as more international, greener, bigger, more diversified, and more high tech.
Ⅲ Main Fields in Economic Cooperation Between China and Japan

2. Automotive Industries

- China encourages the development of clean and fuel efficient vehicles in an effort to sustain continued growth of the automobile industry.

- The sales also speed up automakers' efforts to develop next-generation energy-efficient and emission-free vehicles.

- Personal demand is booming in China, this growth is spurring demand for automotive parts, services, and after-care products. The potential in the automobile market is very promising.
3. Tourist Industry

- In 2014, more than 2.4 million Chinese tourists visited Japan. The number of Chinese visitors to Japan is expected to double or even triple because of the increasing number of China’s middle class and wealthier families in future. The strong increase of outbound tourism has made China a great exporter of tourists.

- The number of Chinese holidaymakers to Japan doubled 2014 in 2015. Chinese tourists spent over 1.4 trillion yen, or 41 per cent of the total, buying everything so much so that “bakugai” or “explosive shopping” in Japanese was one of the buzzwords of the year by one publishing house.
3. Tourist Industry

- *Japanese Economy 2015-2016* released by the Cabinet Office pointed out that domestic consumption driven by the surge of foreign tourists produces the more and more influence.

- Measures of releasing visa and expanding consumption tax exemption object for attracting foreign tourists promote the increase of visitors to Japan.
3. Tourist Industry

- With the number of tourists is rising so fast, the hotels-and bus companies-like infrastructures are seem not enough in Japan. This also brings more investment opportunities for entrepreneurs and tour operators from both countries.

- Introduce incentives are necessary, such as encouraging the interactions among peoples, providing mutual supports, organizing staff trainings, easing visa policies, offering convenient and diversified solutions, and becoming familiar with the needs of tourists, to attract more Chinese tourists‘ travel to Japan.
4. Expand Economic and Trade Cooperation

The enterprises of both countries give play to each other’s complementary advantages, and develop the third party market together: Iron and steel industries. Infrastructure cooperation opportunities will be found in other countries along the Belt and Road.

Both sides can expand cooperation in trade, investment, finance, and carry out new cooperation in the new field, such as healthcare and the aged nursing, cross-border e-commerce, green ecological environment protection, construction of energy conservation and low-carbon society, development and application of industrial robots and service robots, increase of agricultural productivity, food resources import, feed storage and processing, etc.
Thanks