China, Japan, and the United States: Political Economy Issues

12 December 2002

Together, China, Japan and the United States constitute about 40% of global output. As the Chinese economy continues to experience growth in the transition toward marketization, assuredly, it will assume an even higher profile in the global economy. Relations among the three economies have, historically, been fraught with tension, being colored by cold war tensions, uneasiness with China’s growing economic power, competition for political and economic dominance over the rest of Asia, human rights issues, and unresolved hostility resulting from the Sino-Japanese War. Since September 11th, however, the relations among the U.S., Japan and China have been improving. China was quick to support the U.S. following the attack (with some reservations), as was Japan. China also accepted the apology made by Japanese Prime Minister Koizumi for his country’s aggression during World War II upon the latter’s visit to Beijing in October 2001. There appears to be a unique opportunity to forge a new level of cooperation among the three economies, both economically and politically, despite fundamental differences among their economies and political philosophies.

On 12 December 2002, the APEC Study Center and the Center on Japanese Economy and Business of Columbia University sponsored a symposium exploring new developments in the political and economic relations of China, Japan and the United States. Joining Columbia University Faculty were Professors Ross Garnaut and Takatoshi Ito, both possessing extraordinary insight and expertise in Asia-Pacific relations. An excerpt of the symposium is presented below, accompanied by highlights of exchanges with the audience.

The conference was co-sponsored by the APEC Study Center.
China’s economy has done a remarkably great job in growing 7%, plus there was no slowing down even during the Asian currency crisis. The dollar peg has been maintained since 1994, and although we hear a lot about inefficiencies and non-performing loans with state-owned enterprises, the problem seems to be contained. The best engine China has is foreign direct investment. Many Japanese, European, and American companies want to set up their plants on China’s soil, and take advantage of low wage labor. If you take the World Bank’s PPP exchange rates, the Chinese economy is already the number two economy, second to the United States. If you do the market exchange rate, Japan is still the number two economy, or if you think the European Union is a united state, then Japan is number three. However, if you project the current growth rate of China and the current growth rate of Japan—which is zero—China will become the number two economy even at the market exchange rate around 2015. The political regime seems stable. The transition to the next generation is taking place; there is no instability, at least in the Beijing and Shanghai areas. I think that as long as foreign direct investment is coming in, China’s growth will continue. I am optimistic.

We hear a lot about low-priced exports from China going to Japan. Some Japanese blame the deflation in Japan on these exports of low-priced goods. I am not sure if this argument is right. The import to GDP ratio is about 10%, and supposing the lower fifth of imports originate in China, then perhaps 2% can be explained by declining import prices. That is not enough to explain the deflation in Japan. Many Japanese small and medium-size manufacturing enterprises are blaming China for “holding out” and for their industries constructing plants in China instead of Japan. This is probably true. Whether the yuan is undervalued for now is also debated in Japan. The Japanese finance minister believes that it is undervalued. Citing the PPP, he argues the correct exchange rate 150 and 160 yuan to the yen. This is causing a lot of debate.

China also is very aggressive in extending economic ties to the ASEAN countries. China forgave Cambodia and Laos for their liabilities to China and there is the China-ASEAN free trade agreements. China is also very forthcoming in the ASEAN+3 process. Chinese influence is increasing in Asia. You talk to Korean friends, and they tell you that exports to China from Korea exceeded exports to Japan, so they are now more willing to listen to China than to Japan.

Turning to the Japanese economy, it is just the opposite. The picture is quite grim. Deflation of 1% in the CPI has been going on for about 3 years, the economic growth rate has been 1% on average for the last ten years, and unemployment has risen to just under 5%. People are losing confidence and a financial crisis seems to be looming. When Takenaka tried to push the banks toward radical reform, the bank executives got together with LDP politicians and Takenaka had to back away from his plan. There is no immediate resolution of the non-performing loan problem or other banking problems. Monetary policy has gone to the limit in the sense that the interest rate has been lowered to zero since March 1999, and the monetary base has been lightened because the Bank of Japan has increased purchase of long term bonds. The monetary base has been increasing at about 20% a year. Unfortunately, nothing is happening in response to those low interest rates and the increased liquidity. One of the problems, of course, is deflation. Because the inflation rate is negative, if you calculate the real interest rate it comes to about 1% and probably is higher than the U.S. real interest rate. You don't have the monetary tools to correct this real interest rate. If you cannot use monetary policy, you use fiscal policy. This is what Japan has been doing for the last five years, with a very large spending problem, running into deficit. As a result, the debt to GDP ratio will have risen to 140% by the end of this year. In 1990, the ratio was about 65%. That’s
a substantial jump in only twelve years, and it is still rising rapidly. In 1990, 65% was about the same as the U.S. rate, and we, meaning the U.S., Japan, Germany and France, used to make fun of Italy and Canada because of their very high debt ratios. Now Japan is suffering more than Italy and Canada. Moody and the S&P are very worried about the fiscal situation. If we continue the current rate of deficit, which is between 6% and 8%, sooner or later we get to 200%, which is an unsustainable level of government debt. There is not much time left for Japan to make a turnaround. Unfortunately, there is no prescription for this problem in the macro textbooks; there’s no such case in economic history since perhaps, the Great Depression.

Many proposals have been put forth but have been rejected by policymakers. Many economists, including myself, have proposed that the Bank of Japan should expand monetary policy even more. It could buy long bonds, unlisted stocks, listed stock price index linked-mutual funds, or even real estate investments, or trust funds. Simply by printing money, sooner or later deflation will stop and inflation will go up. We could adopt this unconventional monetary policy with one target: inflation. If we announce that the inflation target is between 1% and 3%, then with this unconventional monetary policy, I think it is possible to achieve the long term positive inflation rate. However, this proposal has not been well-received by current BOJ executives and policy board members. Politicians are still calling for deficit spending, and for building more roads and tunnels going nowhere. Many caution against such wasteful public spending, and this has been a force in political grounds.

Japan’s policymakers have also proposed a number of new Free Trade Agreements (FTAs). The Japan-Singapore FTA is the first FTA Japan concluded. Japan is also negotiating an FTA with Korea, Thailand, and the Philippines. (To anticipate Merit’s objections as to whether Japan is aiming at clean FTAs or dirty FTAs, I think we can prove that it will be clean FTAs.) It has become very active in negotiating FTAs with Asian neighbors. The question remains whether Japan will get out of this deflationary spiral and regain strength. If it does not, I think this Asian initiative for economic integration will fail. What Asian leader will want to link their economy to a country in crisis? Japan is in a very critical situation. It must put its own house in order first, and then hurry to integrate with the other Asian economies to enlarge their market and take advantage of economies of scale.

The Asian countries are worried about U.S. unilateralism; the U.S. does not seem to be interested in Asia, or the rest of the world, at least not on an economic front. Washington is absorbed in security issues, geopolitical risk, tax cuts and nothing else. We are quite worried about declining American interest in international economic and financial matters. To sum up, for China I’m optimistic, for Japan I’m pessimistic, as far as the U.S. is concerned, I remain skeptical.

Japan is in a very critical situation. It must put its own house in order first, and then hurry to integrate with the other Asian economies to enlarge their market and take advantage of economies of scale.

—Takatoshi Ito

ROSS GARNAUT
Professor of Economics, Research School of Pacific and Asian Studies, Australian National University

How well you think an economy is doing depends upon what you think it should be doing. Taka has said Japan is doing badly, China is doing well, and the U.S. is somewhere in the middle. Another way of looking at it is, if China does brilliantly well, in 50 years it will look something like Japan—a rich country with a high per capita income and a rapidly aging population, its best days of economic dynamism behind it. Each of these three economies is doing reasonably well right at the moment in comparison with reasonable expectations of long term growth potential. There’s no reason to think that an economy with a declining population, especially a declining working-age population, like Japan, can sustain growth over long periods that amounts to more than a percent or percent and a half per annum. That’s what Japan is doing at the moment. The U.S. is running along around 3%. China is running along at 7% or 8%. Just in terms of cyclical performance, right
now they're each running near their long-term potential.

What's determining this growth potential? In the U.S. you have more long-term potential than other countries essentially because the U.S. remains a country of immigration, which keeps the population younger than Japan or Europe, and helps keep the labor force growing. China can grow comfortably at 7% or 8% for quite a long time yet, because it is still catching up. It is doing what Japan did before it was rich and what Korea, Hong Kong, and Singapore did for twenty years. There is some risk of each of these three big countries not achieving this long-term average growth potential we have been talking about—the risk being probably greatest in China.

I doubt the risk these days is very much in the economic parameters. The biggest structural economic challenges that China has to face to sustain rapid growth over the long term have already been met. The most recent being the transition toward having most growth generated in the private sector in the economy. This huge structural transformation has occurred over the last ten years, especially in the last six years and integration with the international economy is proceeding more rapidly and smoothly than anyone expected in the earlier days of reform. There are still big economic challenges ahead, but they are not as large as those that have already been overcome.

The big risk is whether China succeeds in making a political transition away from the Leninist state towards a political structure that accommodates the more varied set of political interests created by its new market economy. The transformation could possibly be smooth—that is going to depend very much on the quality of leadership in China during critical times. It could also be difficult if there is resistance to the transition, or it goes beyond certain limits. It is going to be a very complex transition and it is not going to look like the political transitions other countries have made, partly because we haven’t before had an example of a Leninist state that presided over rapid, market-oriented growth. One should not presume that the growing power of private business in China, even with its strong international links, will be on the side of democratization. The chances of a smooth transition were improved by the old leadership. The immortals who led China through the revolution are now dead. If Deng Xiaoping had died before 1986, then the reformist leadership almost certainly would have taken things through the critical period of the late 1980s into greater political liberalization (but not into something that would look to Americans or Australians like a modern democrat state, not yet at this stage). I introduce the risk of a difficult political transition as a qualification on expectations that China can continue to grow at very rapid rates for the long period required to become a rich country.

As for Japan, Taka has pointed to some of the risks. I don’t think that they are so large, but there is a possibility that the huge burden of public debt could create some crisis.

The taxation necessary to fund that, should the debt keep growing, creates disincentives for capital to stay in Japan and for the most talented young people to stay in Japan. That is something Japanese leaders need to think about.

What we have in China and the United States at the moment is almost opposite tendencies in international macroeconomic areas, as the U.S. has a huge and rapidly growing current account deficit. China has a current account surplus, and at the same time is going through a period of being very attractive to capital inflow, so that is being reflected in rapid growth in foreign exchange reserves. Japan has a current account surplus, which for most countries would be quite large, but certainly is not for Japan an historically high current account. There is less of a tendency for Japan’s international macroeconomic position to change than there is at present in the U.S. and China. There are some medium-term economic risks associated with both the American and Chinese positions.

There is a reasonable concern that at some stage the accumulation of liabilities in the U.S. will lead to some collapse of confidence in financial markets. With the yuan maintaining a fixed exchange rate against the dollar, and with the United States’ largest trading partners being Mexico and Canada (both closely linked to the U.S. economy and with their own exchange rates influenced by growth in the U.S. dollar), and with the 4th currency very important in U.S. trade, the Japanese yen, being subject to pressure to depreciate
against the U.S. dollar, it is more likely a weakening of confidence that the U.S. in financial assets would take other forms, such as a rising yield in long term bonds that would have a negative effect on investment and perhaps slow down the growth rate to what it otherwise would be. There is coming to be excessive optimism in the international economy on the part of growth and investment prospects in China, at a time when there is not so much confidence in the U.S., Japan and Europe. China stands out as an attractive destination for investment. With the fixed exchange rate the tendency of capital inflow in China isn’t reflected in a rising yuan. There are certain circumstances that despite the exchange controls there could be a period of excessive expansion growth beyond the natural speed limits of the economy which would give rise to a very unpleasant adjustment later on. This would be China’s version of the bursting of the international capital bubble that a number of other Asian economies have been through. It’s a long way from that now but that danger does lie ahead.

In Japan’s case, I think it is sensible for Japan to run its large surpluses and perhaps to run larger ones. If Japan could, as Taka suggested, generate increased surpluses through the printing of money, this, combined with a tight fiscal policy in Japan, could be a mechanism through which you get a weaker yen, larger growth in net exports, and a larger current account surplus. This could actually help to finance the economic strategy of the large deficit the U.S. is beginning to run.

The rest of the world will have to fund the huge current account deficits in the U.S. which become larger if U.S. financial commitments in the Middle East become very large with a war in Iraq. I think it is better for China and its relations with its neighbors to seek to correct this period of excessive growth in foreign exchange reserves. It can do this by yuan appreciation, although that’s not very likely in the near future, or through accelerated trade liberalization. That’s not very easy either because China’s commitment to trade liberalization is very extensive, and we’d be talking about going beyond these, but that would be the most sensible thing for China to do for relations with its Asia-Pacific partners. The sensible way for these three economies to go in a macro sense is to be comfortable with a weaker yen strategy, a larger surplus in Japan, for China to modify its surplus with yuan appreciation or, more likely, through accelerated trade liberalization, and for the U.S. to be comfortable with the surpluses on the other side of the Pacific. This would be best for the U.S. but politically there’s likely to be some resistance to that.

Taka mentioned the tendency to emphasize FTAs at the moment. I worry this could become a situation that creates very large difficulties in U.S. relations with Japan and China, and with Asia as a whole. The recent fad for free trade areas has several origins. The success of NAFTA increases the legitimacy of preferential trade arrangements in the U.S. after a long period of commitment to multilateralism. On the other side of the Pacific, NAFTA resulted in a desire for similar free trade areas. Japan developed an interest in free trade with Mexico, for example. The Asian financial crisis marked the end of interest in non-discriminatory trade liberalization within the APEC framework. That had been a very comfortable framework within which there was radical trade liberalization right throughout the Western Pacific in the 1990s right up to the financial crisis in 1997. It lost

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—Ross Garnaut
momentum in the financial crisis and has not regained it. That loss of faith in multilateralism created greater interest in free trade areas and the failure of the Seattle WTO meeting accelerated disillusionment with the multilateral system. Once it got going, FTAs developed a life of their own. China is going through a period of very strong commitment to multilateralism. It is aware that its trade interests are global interests, that it can’t meet its trade requirements without strong international growth, that it needs global free trade.

When you analyze what is possible in free trade areas you come to conclusions that are fairly alarming. Japan can’t enter ordinary free trade agreements with countries that have strong agricultural export sectors; it can’t enter free trade agreements with the U.S. or Australia. Japan will have to form free trade areas with countries that don’t take free trade in agriculture seriously, like Singapore or Mexico. China’s motivation for free trade areas will be mainly political; it is able to enter a free trade agreement with ASEAN and can be very generous with the ASEAN countries. It doesn’t require much reciprocity. In that sense, it will be a dirty free trade area if it happens, one that is very damaging to the WTO. This would also be true of a Japan/Mexico free trade area. It is possible that the same sort of political motive could lead to a dirty free trade area in Northeast Asia, involving Japan, China, and Korea. The natural dynamic would be a very unfortunate division of the Asia-Pacific region along a diagonal that has the U.S., the Americas, and Australia in one trading bloc, and East Asia in another. That’s where we end up on the current trajectory. This will be very damaging for the U.S., very damaging for China and Japan and their global trading interests, extremely damaging for Australia whose main trading partners are in the Western Pacific. The one way of avoiding this is to get real momentum back into multilateralism, and the Doha agenda proves an opportunity for that. If China, Japan and the U.S. recognize the downside of the current path this could be a spur for getting more deeply involved in making the Doha round work.

Both the U.S. and Japan are going to have to go through difficult adjustments coming to terms with a much richer and more powerful China. This is one of the largest adjustments in the balance of power that the world has ever seen, but it is a natural thing. Something will have to go seriously for China not to be the largest economy in the world in the decades going into the 21st century. Poor developing countries like China are still undervalued in GDP when you convert national accounts into international currency at going exchange rates, but that undervaluation disappears through the growth process. Japan caught up with the U.S. much more quickly than the exchange rate differentials predicted. The early 1970s were a period of very strong appreciation of the real exchange rate. Once labor became scarce, real wages rose relative to the U.S., catching up very quickly. This happened in Korea, Thailand, and Singapore. It will happen in China. Catching up will be much faster than the differentials in GDP would suggest. This will be hard for all of China’s neighbors and will require a lot of careful leadership and analysis to avoid conflict during that process.

The doctrine articulated in the U.S. in recent times about how the U.S. will never accept another economy having comparable weight to the U.S. is unsustainable in the long term. How you adjust those U.S. expectations without military conflict is one of the big challenges of the next several decades. The most likely point of controversy is the status of Taiwan. These issues in Sino-US relations have become easier since the war on terrorism and September 11th and its aftermath. While it is a great tragedy for all of our countries and for the world, the one positive side is that it has led to a framework for Sino-American cooperation. It is likely that this will be very important for a long time. China has the most difficult borders, with half a dozen Islamic states, including all those the U.S. Defense Department calculates are the most difficult, and it has a very large Islamic minority. What the U.S. saw as an abuse of human rights in Chinese government actions in the West, which the Chinese saw as Islamic terrorism, are now seen as part of the common war on terrorism. There is some irony that, but it certainly changes the framework for U.S.-China strategic cooperation.

If the Asia-Pacific doesn’t break into two separate trading blocs, it is likely that the difficulties of the past in China-Japan strategic relations will improve.

—Ross Garnaut
that had such strong feelings about the war between China and Japan, means that China is able to think more strategically about relations with Japan. China has not been thinking very strategically in its national interest in its relations with Japan for a long time. The current General Secretary of the Communist party is the first leader who is not old enough to have developed strong feelings about Japan as a result of the war and this generational change will change the character of Chinese relationships and increase the challenges of U.S. relations with East Asia over these very important decades immediately before us.

**DISCUSSION**

**MERIT JANOW**

Professor in the Practice of International Trade, School of International and Public Affairs, Columbia University; Co-Director, APEC Study Center

It really has been an important year in improvements in US-China relations and I, too, think that is due much to the tragedy of September 11 and its aftermath. How can we build on this opportunity for improved relations? There was a sense that with a period of leadership succession unsettled this was putting a curb on new initiatives on the political and foreign policy front between the U.S. and China. With that settled, can we move ahead on political and foreign policy sides in interesting and important ways? I certainly hope so. I have often felt that there is a value in separating politics, security and economics considerably and that when they get blended, they do not necessarily improve with the blending. We have gone a very long way in our trade and economic relations with China such that we can have a great deal of economic tension without it turning into a political or security-related problem. I wonder now whether the improved relations can improve further the political security relationship of the U.S. and China.

On the economic front, it is very interesting to see how China’s access to the WTO has been used for achieving reform at home. This is an old story; we saw President Salinas argue that he needed NAFTA to lock in reforms at home. It would be quite interesting to see the extent to which Chinese officials who are trying to introduce more market reforms at home use the multilateral system to reinforce that direction. I was talking to a local official the other day who was complaining about inter-provincial barriers to their beer exports and how he was hoping that the WTO system was going to help him with this problem. I told him I thought the WTO was not going to be a saving mechanism and he said, “well if I can just find an American firm that also wants to export from my province then maybe we can push this ahead.” It’s a difficult way to manage an economy but it is also true that China has committed to a uniform administration of its trade regime.

I have been increasingly impressed in how China is becoming a force in global trade policy. At the WTO it is playing an extremely active role, not uniquely active, but certainly surprising for those who thought China could not be anything but a footdragger. That is not proving to be the case at all. They are selective, being quite active, but not all of one character. It is an interesting time to watch China in this arena.

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—Merit Janow
As Ross articulated, I think China has been far more bold in its free trade area strategies and has overwhelmed Japan’s initiatives. This is not to say that China’s ASEAN+3 will be economically meaningful in the short term, but they are altering the nature of the debate in a more profound way than many would have expected and they are also doing this defensively. I share the view that Chinese officials articulate the view that “everyone else is doing it, why not us? ASEAN is worried about us, it is important for us to show that we are prepared to link our growth to ASEAN.” This is the commentary coming out of China and it is worth watching. China has also become the most forceful advocate for the WTO system in the region, as a matter of public rhetoric and that, too, is interesting.

I worry that we are heading to a repeat of the Uruguay Round negotiating dynamic, where we have the Doha Round and Japan (which is so much more of an open economy than many others with its very low average tariff rates) is once again perceived as taking a foot-dragging role in agriculture. This is defining its profile in the multilateral system and that is regrettable and highly reminiscent of an earlier period. Much more can be said about Europe, but we are talking about other countries today.

Responding to Taka, I think it is fabulous that Japan is going to have clean FTA, but how will it do this, and who cares? My sense is that there is a very small community of people engaged on this subject within Japan now, and you may say it has always been so; the general public is not part of the discourse.

CARL RISKIN
Adjunct Professor of Chinese Economics, Columbia University

It is true that China has thrown in its lot with globalization. China made very substantial commitments in its access agreements to the WTO knowing full well these commitments. It could be a problem in the short and medium term before having the opportunity to get to the expected long run benefits of improved economic efficiency. I think China’s leaders were willing to make these concessions and to engage as wholeheartedly as they have in integrating to a global economy because they genuinely believe that is the best way to keep the economy growing rapidly. As a communist party-led government, just as in Europe, when the old ideal, the binding glue that held the system together is no longer there, economic growth and improved living standards are the only remaining basis for maintaining legitimacy of the party’s rule.

Market reform has brought very rapid growth and rising living standards to China, but it has also brought a sharp decline in equality of all kinds, of women, of the countryside, between regions, etc. It has also brought economic insecurity to a population that is not used to economic insecurity, a high rate of unemployment, the fading away of the social safety net that used to exist, well before the newly established safety net institutions have been properly funded and are working effectively. The restructuring of the economy, which the WTO accelerated, could make all these problems much worse. In terms of employment, the chief problem will be agriculture, which is dominated by extremely small farms. These farms are finding it very hard to compete with the industries and subsidized agriculture of the U.S. China’s WTO commitments in agriculture are very substantial, more so than those for manufacturers. The farm labor force in China is something like 350 million and perhaps an equal number of people are depending upon them for their livelihood. Growing imports of farm goods would clearly affect many millions of people. There has been an extraordinary decrease in rural poverty in China in the last 20 years, but if you look at that decrease, virtually all of it took place in short periods: the first four or five years of the transition period occurring from 1979–1984, and then middle of the 1990s. The one thing both of these periods had in common was sharply rising prices and incomes. That’s been the story of poverty in China. The capacity of China to use rising prices to solve its rural poverty problem and allow the rural majority to participate in the benefits of economic growth and improved living standards are the only remaining basis for maintaining legitimacy of the party’s rule.
growth are severely limited by WTO accession. You can’t go that route anymore. China will need continued domestic and international growth to provide the many new jobs that the structural adjustments required by increased globalization will bring about.

Economically, China is extraordinarily self-sufficient in agriculture for a land-scarce country, even though it made big concessions in its WTO accession agreements on the agricultural front. It retains the capacity for a high degree of agricultural self-sufficiency if it chooses to do so. However, it would be better for China’s economy if it did not choose to do so. Will it regard greater dependence on the world market for basic food supply as consistent with food security? If China continues along a globalization path, given all these ramifications, it is very important that it have in UN jargon, an “enabling environment”. In general, this involves stable economic growth in the world, especially in the region, and a stable, rule-based international political environment. In this context, the U.S. policy of unilaterism looks anything but helpful. War in Iraq heightens international instability with sharply rising oil prices and the world’s sole super power acting like a loose cannon. This is not the peaceful, enabling environment in which China would be more prone to rely on the world market to fulfill basic needs like food. Nor does it provide the enabling environment that would ease the process of structural adjustment for China. Nor would it support faster regional growth in Asia. I hope that the U.S. position, which has indeed matured greatly toward China, whether at the cost of September 11th or perhaps for some other reasons as well, would spread to the global arena. I think a lot depends on it.

GERALD CURTIS
Burgess Professor of Political Science, Columbia University

I think we can safely make a number of assumptions about the midterm and long term future. One is that with the relative decline of Japan, whether one thinks that the current economic performance is more or less as much as you can expect, or whether you consider things are a mess, all kinds of opportunities are being missed, and there’s no sign things are going to get better soon. I think we can agree that Japan isn’t going to grow a lot faster than it is growing now for some time to come, and that its relative weight is going to decrease. The second safe assumption is that China’s rise as a great power is genuine and it is long term. China will emerge as one of the great economic (and probably military) powers in the world in the coming decades. A third assumption I make is that the U.S. is determined to retain a unipolar world system for as long as possible and will continue to invest huge amounts of money in ensuring that no other country can even hope to match U.S. military power and hopefully will give up the effort. The U.S. will also try as long as possible to retain its economic leadership in this unipolar system.

This creates a very new phenomenon when you think about U.S./China/Japan relations. Up until the end of the cold war, there was never a strategic, triangular relationship between the U.S., Japan and China. There was a triangle between the U.S., the Soviet Union and China, but Japan, at least from the U.S. point of view, was always safely in the U.S. corner in this East Asian relationship. In the Japanese point of view, the critical difference between the cold war era and now is that during the cold war period, the Japanese could always be comforted that they understood what was dragging U.S. policy toward China. The policy might change, like in Nixon’s sudden visit to Beijing, but the shock of his visit to Beijing was not that Japan did not understand what the U.S. was about (it was about a strategic balance with the Soviet Union), the shock was more about the humiliation that it wasn’t informed. The difference in the post-cold war world is that no country, including China, has any advantage in being hostile to the U.S. Every country has an interest in being friendly toward the U.S. That’s one important consequence in this unipolar system.
HUGH PATRICK
Director, Center on Japanese Economy and Business; Co-Director, APEC Study Center

It seems to me that the definition of clean and dirty FTAs changes somewhat over time. It used to be that a dirty FTA was one where there were very high trade barriers on members. Trade barriers generally have gone down and nobody has said they would increase them. There are other ways you can discriminate in favor of the membership but the big issue, at least in the region, is indeed agriculture, and the question is whether agriculture should be included or not.

ROSS GARNAUT

If the adjustment from internationalization of Chinese agriculture will be a very large one, modeling that people from ANU have done suggests that 8 million farmers currently growing grain will be displaced as a result of the WTO commitment. That is a big adjustment, but at present there are 8 million very poor people, and raising income in rural China is a lot about getting people off the land and into high productivity activities. The biggest barrier to that happening is the internal trade and movement of people. Two years ago I was in a discussion with a number of Chinese ministers regarding what China needs to do internally alongside the entry to the WTO to make the adjustment possible. I suggested the establishment of a China trade organization where people could raise complaints within China about barriers to internal trade. One reason why China has experienced low growth in rural income since the mid-1990s is due to the restrictions on internal trade and movement of resources. Zhu Rong Ji was very much in favor of market-oriented reform in the urban sector. He was a champion of WTO entry, but he is also very much personally responsible for the maintenance of very rigid controls on the use of rural land resources. This was all premised on the old idea that were China to quickly to rely on international sources for grain, this would make it vulnerable in various ways. A lot of Chinese farmers have been kept poor by being locked into low-value grain production instead of allowing them to do more valuable things. We should not underestimate the scale of the problem. The solution is reduction in these barriers.

TAKATOSHI ITO

The reason I am optimistic about a clean FTA is due to the competition with China and so it's more a defensive measure. I agree that Japan may not be taking the moral high ground, but if it doesn't move now, then Japan would be forever excluded from an Asian FTA and thus isolated, maybe with Korea, from the rest of the world. Rice is probably the one dirty spot; it won't be free, but you know every country has at least one product that it holds sacred. But why do you have to cling to a one percent tax on shrimp? It is absurd. I think we economists can make a good case for emphasizing that the benefits outweigh the costs. We've been doing this all the time and it didn't have much impact, but this time what is different is this fear factor that manufacturers have against NAFTA, that the same thing may happen in Asia, and then Japan would be over.

China’s rise as a great power is genuine and it is long term. China will emerge as one of the great economic (and probably military) powers in the world in the coming decades.

—Gerald Curtis

10 China, Japan and the United States: Political Economy Issues
**Question and Answer**

Q: I work for a large financial services firm here in New York and our take is that one of the key problems in Japan is that non-performing loans are not being resolved at all. If and when that happens, the growth and deflation issue might be easier to tackle. Do you agree?

Takatoshi Ito: It is absolutely necessary for the Japanese economy to restart growth fast, that the the banking sector problem be dealt with forcefully. This means that probably a few banks have to be nationalized because they don’t have capital and proper accounting. Several companies will have to file bankruptcy because they will lose the lending from the insolvent banks. One bank president, in meeting with Takenaka and the bank presidents, said, “If you want us to recognize that the lack of capital because of changing accounting rules, first of all it is changing rules in the middle of the game, from soccer to American football, and if you do that we have to withdraw 30 trillion yen in lending to the companies, and these companies will fail. Is that what you want?” Then Takenaka backed down. I still think that is exactly what we have to do to clean up.

At the same time, you have to combine that with other policies to stop the cascading effects or spillovers into other sectors. Deflation will get worse.

Q: I think the US has the kind of schedule to conclude the free trade agreements by 2005. China is also trying to conclude a FTA with ASEAN by 2010. Does Japan have the time to conclude an FTA with ASEAN? I think Japan also tried to exclude agricultural products when they negotiated the FTAs. I would like your opinion.

Takatoshi Ito: China proposed and has agreed to negotiate the FTA within 10 years, and they announced that last year. The only way Japan can make headway is to continue these bilateral agreements with middle-income countries.
中国・日本・米国：政治経済問題

2002年12月12日、コロンビア大学のAPEC研究所と日本経済経営研究所は、元財務省副財務官の伊藤隆教授と元オーストラリア駐在大使のロス・ガーノ教授のスペ incarcerに、中国、日本、米国の政治経済問題の新たな展開について討議するシンポジウムを開催しました。日米からの経済学者コロンビア大学の教授陣（日本経済経営研究所所長のニュート・トリック教授、パトリック教授とはAPEC研究所の共同所長を務める米国貿易のメリト・ジェイツ教授、中国経済のカール・リスキー教授、政治学のジェリー・カーチス教授）がパネリストとして加わりました。

東京大学先端科学技術研究所・伊藤隆教授

中国経済は、アジア金融危機にも影響されず、7%成長と順調に続いている。中国は低賃金で日米欧から多額の外国直接投資を呼び込むが、世界のPPP（購買力平価）根拠による総合GDPは世界第二に続く。2015年までの市場成長率も5%以上、アジア経済観を席巻し、世界経済の核となる段階にあると言える。中国の急速な成長は、その経済体系を大きく変革し、世界経済の新秩序を形成し、世界の主要経済体の役割を果たしている。したがって、中国経済は世界経済を制御する重要な力である。

対照的に日本の経済は停滞の傾向を続けている。米中に対する不利益感は強まる一方、日米欧の通貨政策の不一致は、日米欧の経済成長を抑制する可能性がある。したがって、日米欧の経済政策は、日本の経済成長を促進するためには、通貨政策の不一致を解消することが重要である。

最近の中国事は、高度成長期の日本に影響する。中国は、50年後の日本のように一人あたりの所得が高まる可能性がある。しかし、日本の経済は、日本が成長するためには、高度成長時代の振り返りが必要である。したがって、日本の経済成長を促進するためには、日本が成長するための政策を採用することが重要である。

WTOについても多国間自由貿易促進が進む一方で、国の間での自由貿易協定の締結が増えていっている。米国自由貿易協定の成果は、多国間自由貿易を促進するための手段である。したがって、多国間自由貿易を促進するためには、各国の間で自由貿易協定の締結が重要である。

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