

Why can china and japan not become an economic bloc research paper sample

[Parts of the World, Asia](#)



Economic Bloc in East Asia

The formation of an economic trade bloc between the Association of Southeast Asian Nations or ASEAN countries undoubtedly holds great potential considering the trade clouts that countries such as China, Taiwan, South Korea and Japan hold. China and Japan, being two major players in the region have expressed their eagerness to form a powerful economic bloc that would allow member countries to exercise greater influence over global trade. Japan would like to reduce its dependency on the United States and seeks to renew the progress of its economy that has remained dormant for over twenty years¹. As a result, China, Japan and South Korea have been involved in talks towards the formation of an economic bloc since 2010, with South Korea and Japan focusing on signing a free trade agreement or FTA in order to cement bilateral relations². However, every economic bloc needs to have consensus among each of its members in order to be effective. As can be seen in the current crisis being faced by the EU, differences in trade policies and objectives of member states can lead to instability within the economic bloc, thereby decreasing its power of influence.

In August 2012, Economy ministers from 16 Asian countries agreed to act towards the creation of the Regional Comprehensive Economic Partnership or RCEP, a trade bloc that would constitute a population of over 3.4 billion people and would account for nearly 30% of global GDP³. They estimate that this task can be achieved by the year 2015. Finding a common ground for agreement to a trade policy is not an easy task. Japan and South Korea had begun talks of the FTA in 2004 and agreement is far from being signed even today while similar efforts are being pursued between South Korea and

China⁴. While these countries have their own differences to settle, the gap between China and Japan in terms of trade and economic goals is even greater. Further, while the signing of several FTAs are on the cards, the creation of a formal economic bloc such as the EU is still a fairly distant possibility. The formation of an influential East Asian economic bloc would need the membership of both these countries; however, there are several challenges that stand to prevent this from materializing.

Internalization of Trade

Since the early 1960s, most ASEAN countries have planned the development of their economies based on exports. With the support of their governments, corporations in these nations developed extensive distribution and production networks in countries around the world. The ASEAN was formed to facilitate the cooperation between corporations from different countries competing for the same markets. However, the continued economic growth expected through this approach faltered and the assumed creation of multilateral trade agreement never realized. Figure 1 illustrates three major regions in Asia, Europe and the Americas and the geographic distribution of their exports⁵:

As is evident from the data given in Figure 1, nearly half of the exports of Southeast Asian countries is directed towards the internal markets, as in the goods produced are mainly consumed domestically. Although this might seem to be a majority, the percentage is still far below the 79% of Eastern European countries. It has also been found that the goods exported by ASEAN countries and those exported by China and Japan are alike⁶. As a

result of this commonality, Japan and China compete for the same markets for export. Further, while the formation of a trade bloc between the two countries could provide Japan the opportunity to reach the so far un-tapped Chinese markets, China has no such incentive as the Japanese market is not as lucrative.

Dependence and the Pacific Supremacy

ASEAN countries, which have witnessed great economic growth to the US, have been mounting pressure on the Obama administration to review protectionist policies that are having a negative impact on the region's exports. However, when visiting the ASEAN summit in Singapore, President Obama made it very clear that Asian countries should no longer rely on the US. He further mentioned in a US television address that supremacy in the Pacific region will determine which country emerges as the super power of the 21st century⁷. While ASEAN countries have signed an FTA with China, an agreement between China and Japan is still distant. As stated earlier, Japan wishes to decrease its dependency on the US to drive its exports. The Japanese economy has been stagnant for over 2 decades and relying on the US has not helped⁸. While it may seek to partner with China to reduce this reliance, it cannot ignore the fact that China is its largest rival in the Asian geography. China and Japan are ranked behind the US in second and third places respectively, with the Chinese economy at US\$ 8.3 trillion, while Japan's economy stood at US\$ 6 trillion as per 2012 figures⁹. While the Chinese economy has witnessed steady growth in the past decade, Japan has been struggling to grow its economy in order to stay competitive against

its arch rival. It is forecast that, over the next 5 years, while the Chinese economy is set to grow by US\$ 4.9 trillion to US\$ 13.2 trillion, while Japan's would grow by a mere US\$ 0.6 trillion to US\$ 6.6 trillion. As such, should an economic bloc be created with the two countries, it is most likely that China would hold greater sway over policy formation, which might not be in the best interest of Japan.

Economic Growth Objectives

Before the intense economic growth witnessed by China in the last decade, Japan was the undisputed Asian economic leader. With its currency linked to the US dollar, the Japanese economy remained buoyed despite rising competition from smaller Pacific countries that had the advantage of cheap manpower and availability of raw materials¹⁰. However, the dollar began to falter at about the same time that China shifted its economic objective of being an exporter of raw material to being a global leader in manufactured goods. As a result, the growth of the Japanese economy abated and this provided China with the opportunity to capture regional markets as well as global exports to regions such as Europe and the Americas¹¹. Today, while China has strongly positioned itself as the second largest economy in the world, Japan is struggling to maintain its third rank. Further, China clearly aims to become the world's largest economy. In addition, while it is noted that China depends on Japan to provide technological parts for its manufacturing units, the economic dependence of Japan on China is greater¹². China has already resorted to using its economic influence to pressurize Japan in the resolution of political issues. Hence, should an

economic bloc with Japan materialize, its terms and conditions would have to be such that support the Chinese objectives of supremacy. This would not be the ideal economic situation for Japan as it would only shift its dependence from the US to China. Hence, Japan is more likely to retain its economic solidarity against forming an alliance with China.

Aging Population and Labor Migration in Japan

China's power, political and economical, lies in its people. The country approaches its population as a source of power to be harnessed, instead of viewing them as a resource to be exploited. As a result of this awareness, China has focused on the educational and skills development of its workforce. Today, China is capable of manufacturing high end technological solutions as well as products for a wide range of industries. Several corporate giants from the Western world outsource their production as well as back end services to Chinese industrial and services sectors. With a population in excess of a billion people, the country has no shortage of human capital. On the other hand, Japan's population is rapidly aging, faster than any other country in the last 50 years¹³. Figure 2 illustrates the changes in Japan's population between 1950 and 2005, as well as predictions for 2055¹⁴.

As a result of this rapidly aging population, Japan can expect major changing to its manpower availability and operations¹⁵. With a shortage of workers and professionals, it can be expected that the cost of labor as well as production will rise, leading to a further decrease in the performance of the Japanese economy. Further, the formation of an economic trade bloc with

China could result in the migration of jobs and companies to Chinese shores where labor and raw materials are cheaper. This would have a grave impact on the Japanese economy while buoying the Chinese. The poor performance of one economy in a trade bloc has a pulling down effect on the economies of other members as well. The ambitious economic objectives of China will be hindered if it enters a fair trade agreement with Japan.

Conclusion

As a result of the differences in current as well as economic standing and objectives, Japan and China have not agreed to the formation of an economic bloc. Currently, China has the upper hand, spurred by a steady economic growth, while Japan has been struggling to give some momentum to its standstill economy. Hence, when negotiating the terms of an economic bloc, China will be the greater influencer and this will further lead to resistance from the Japanese. Finally, China is more likely to exploit Japan's economic dependence on it to wait for a few more years till its economy has grown larger and the balance of economic power in the region is further skewed. While Japan has several incentives such as the availability of raw materials and the extensive Chinese markets to be tapped, China relies on Japan mainly for technology. As such, forming an economic bloc between the two countries will be difficult as their regional rivalry takes precedence over global dominance objectives.

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