



# The Rise of Chinese Economy and Japan's Future

Vital Japan – Business & Public Policy Bilingual Discussion Group  
3<sup>rd</sup> Meeting

Jan 25, 2003

*Vital Japan*

# What can be said about China's economy?



“Remarkable economic growth”

“China's threat to the  
Japan's economy”

“The factory of the  
world”

“Post Jiang Zemin”

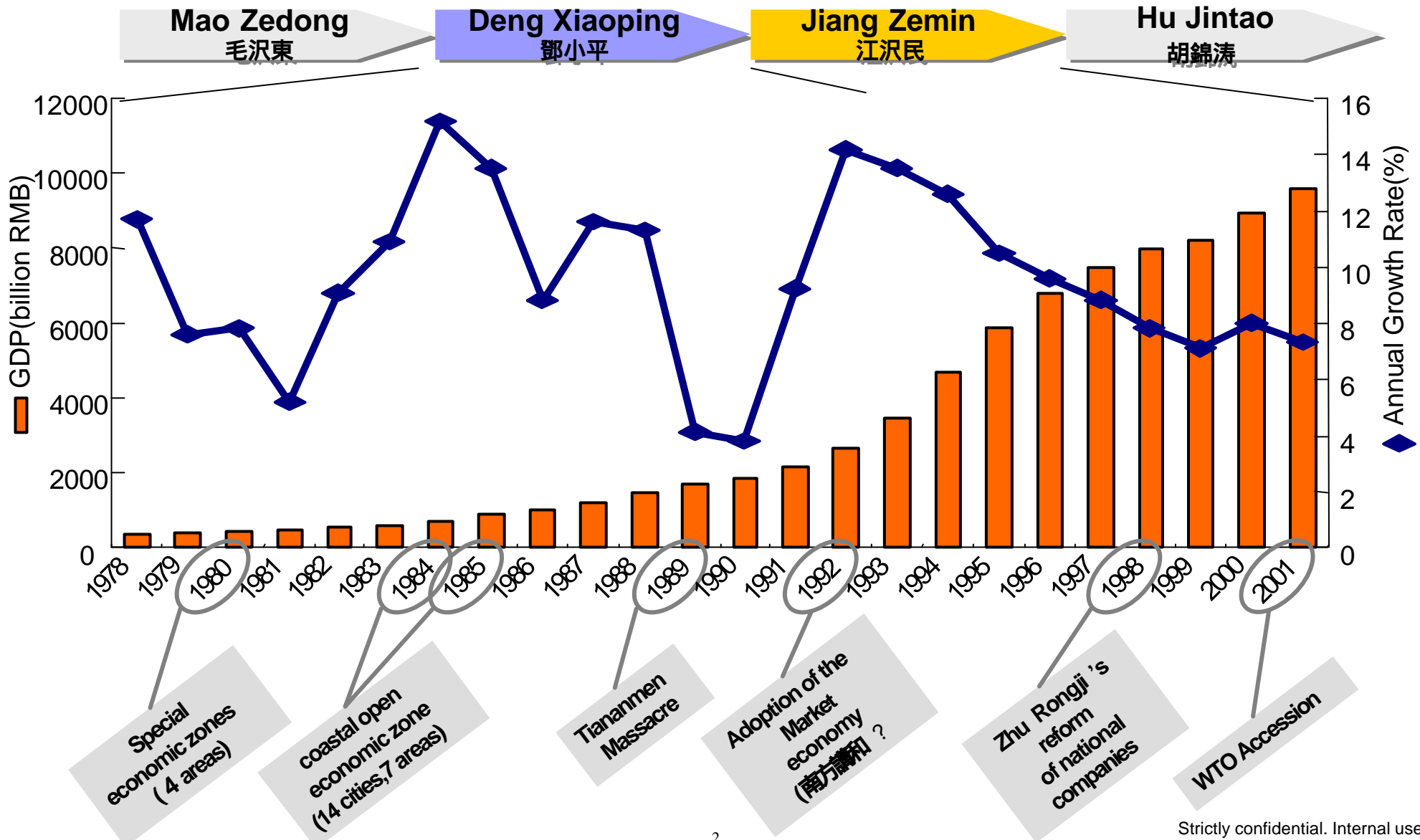
“Global Deflation”

“ ... ”

# China's Political Regime and Economic Growth



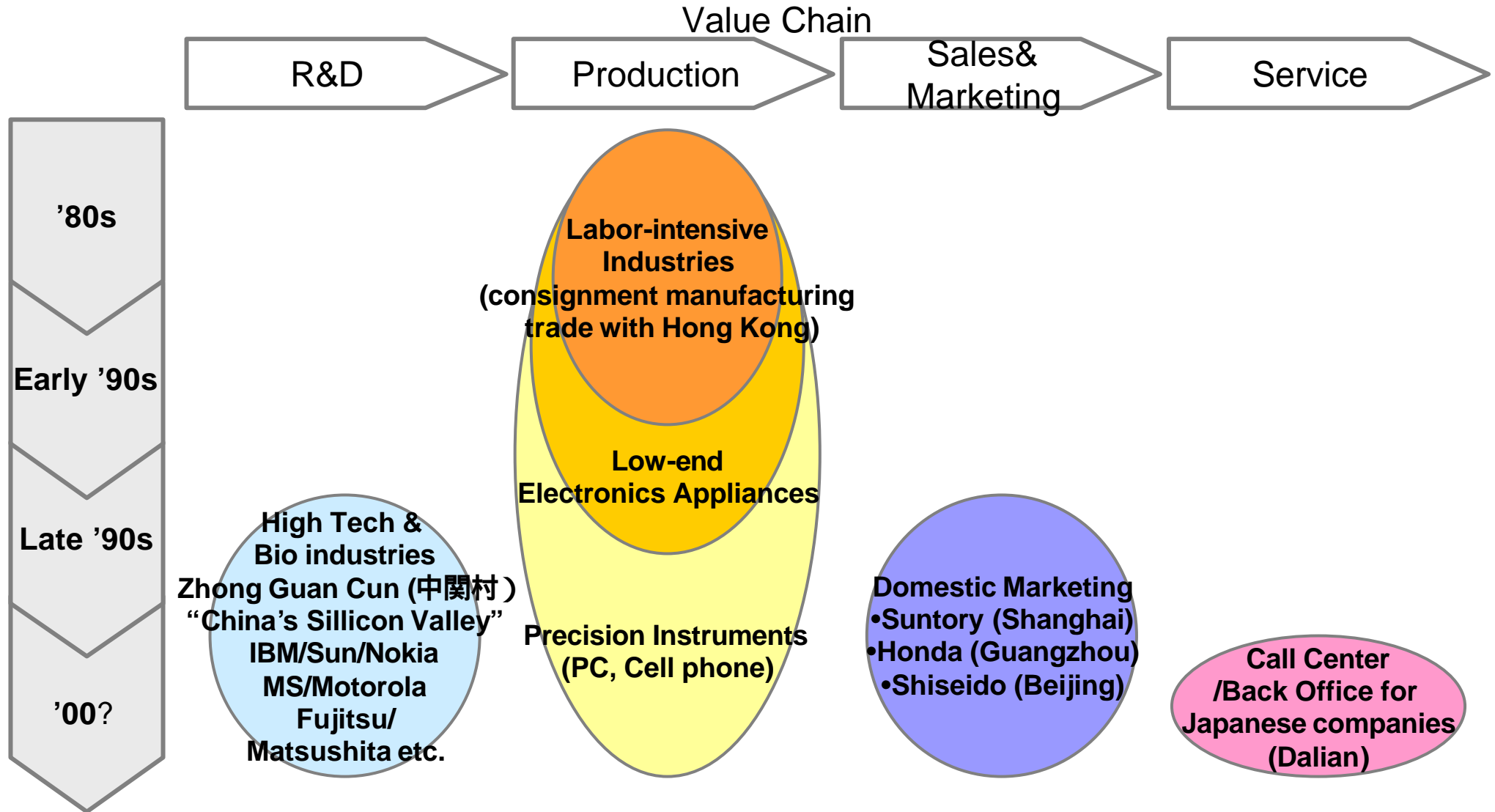
China has achieved economic growth under the “Open and Reform” policy.





# Is China just “the Factory of the World?”

Foreign companies have expanded their activities in China.



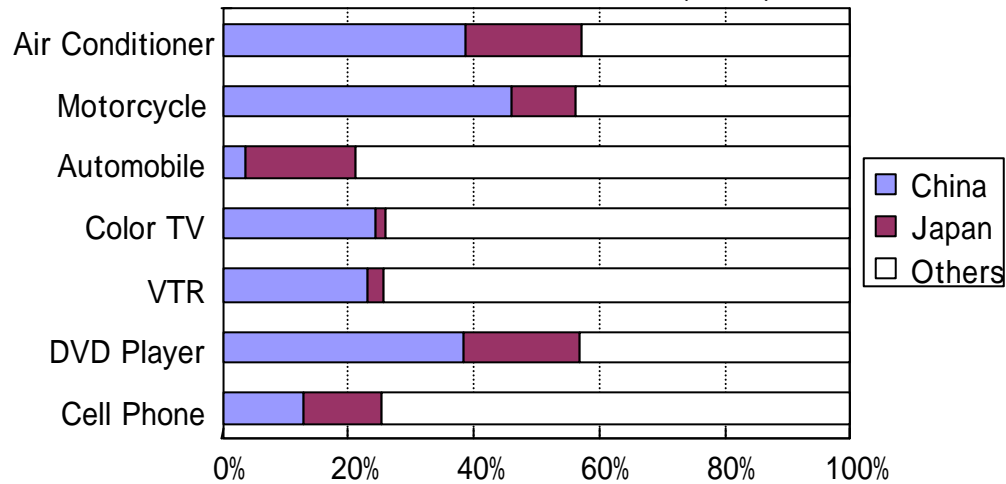
# China's threat to the Japan's economy



China's low labor cost and advancing technologies cause threat to Japan's economy.

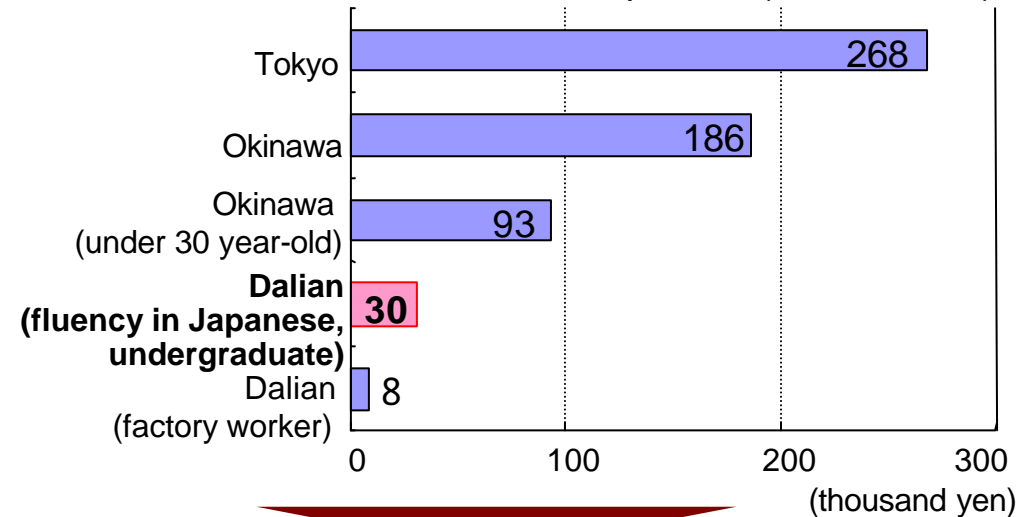
## Threat to Japan's Manufacturing Industries

Global Production Share (2001)



## Threat to Japanese "white collars"

Labor Cost Comparison (office worker)



Forbes's top ten makers of large kitchen appliances (2000)



| Companies                        | Units sold (thou) |
|----------------------------------|-------------------|
| Whirlpool                        | 34,085            |
| Electrolux                       | 24,782            |
| General Electric                 | 14,952            |
| Bosch-Siemens Hausgeräte         | 13,506            |
| Samsung Electronics              | 8,593             |
| <b>Haier</b>                     | <b>8,346</b>      |
| Private label                    | 7,391             |
| LG Electronics                   | 7,243             |
| Matsushita Electrical Industrial | 6,287             |
| Sharp Electronics                | 6,234             |

Source Euromonitor.



## Asia Service Center in Dalian (2002.10)

- Support backroom services of Dell Japan.
  - Accounting
  - Information Systems
  - Sales Force Automation
  - Customer Support (Call Center)



# Creating Mutual Benefits with China

Fast retailing has succeeded in "internalizing" China's advantage to increase its own competitiveness.

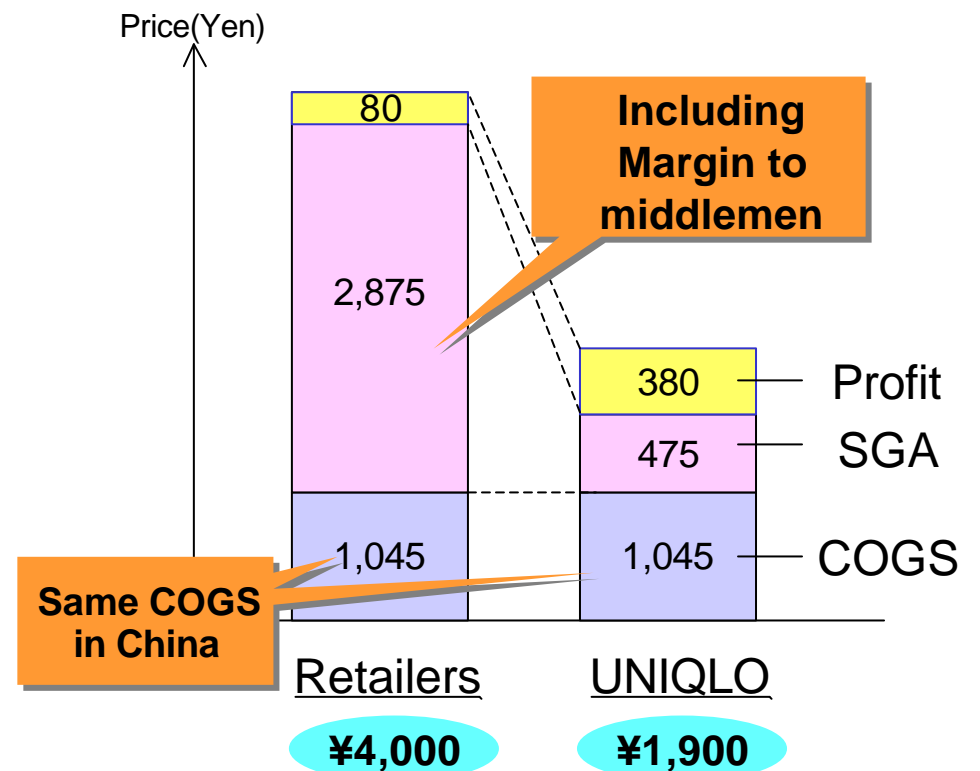
## UNIQLO's Strategy



“Redefining the Value Chain”

- ✓ Production in china as the source of “competitive advantage”
- ✓ Reduce Sales & General Administration Cost by direct transaction with factories in China

## Cost Structure of UNIQLO's Fleece



➔ Not a “threat,” but an “opportunity”



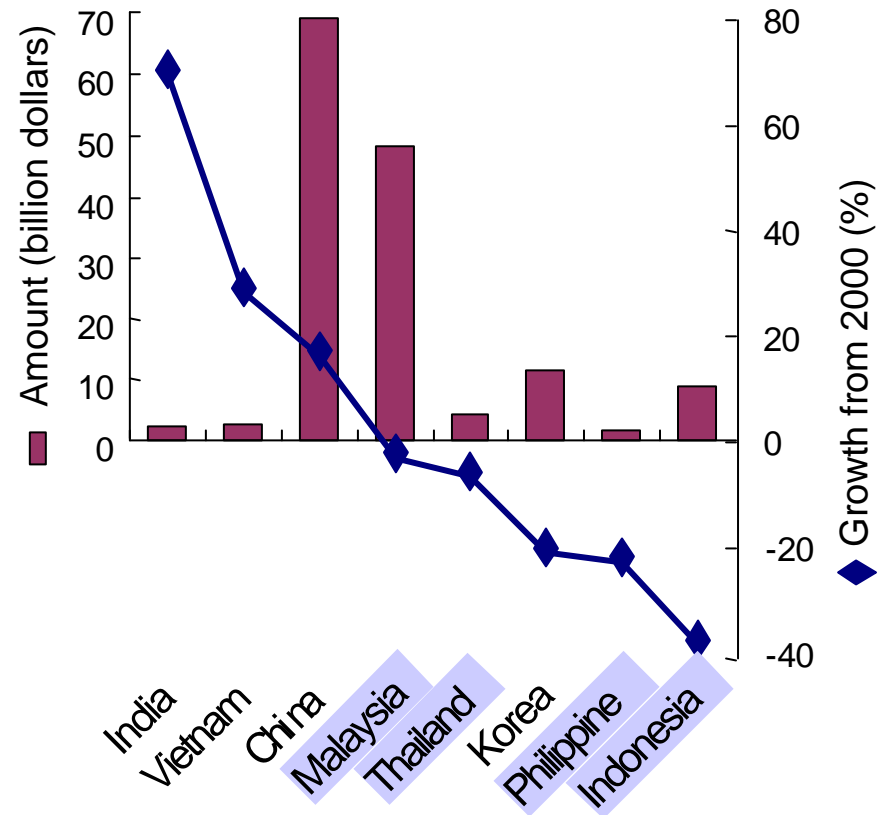
# China's Impact to ASEAN countries

China's attractiveness for foreign companies has increased because of its accession to WTO in 2001.

Monthly Wage in Asian Countries



Direct Investment from Foreign Countries (2001)



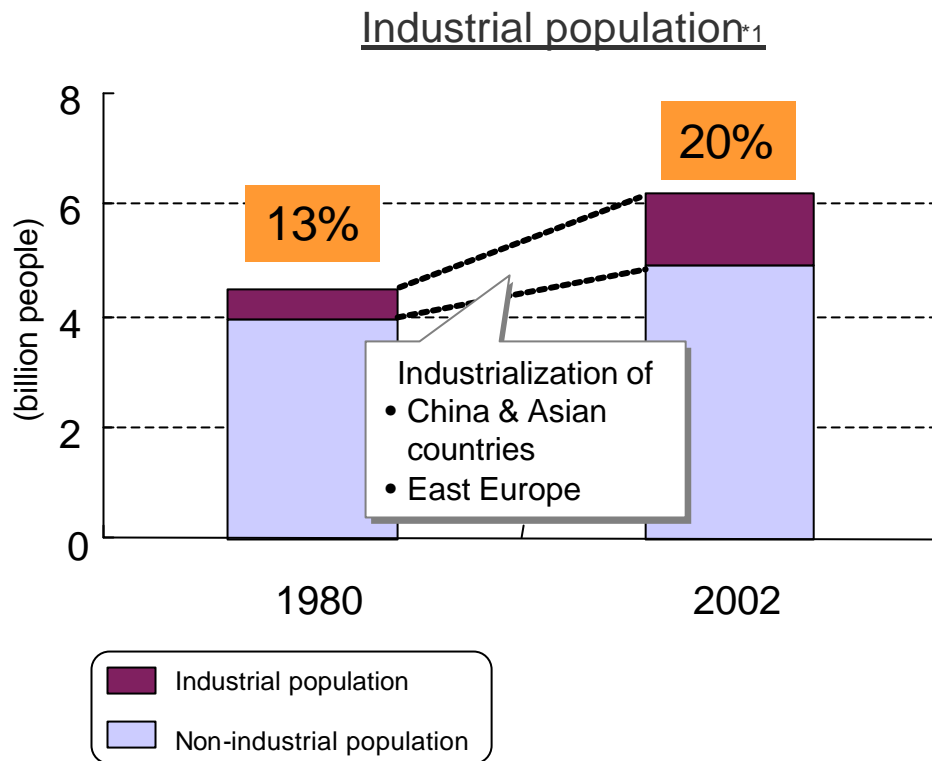
Investment moved from ASEAN to China

# The Threat of Global Deflation



Global Industrialization

Global Deflation



“Low labor costs and an undervalued currency suck investment and jobs from elsewhere. Legions of multinational firms are relocating in China, whose exports threaten global deflation.”



Robert J. Samuelson

\*1 “Creating Mutual Benefits with China” Taichi Sakaiya





## Negative Opinions about China's Future

Gordong G. Chang warns in "The Coming Collapse of China" that the Chinese Communist Party's dictatorship will come to an end in 5 years after the WTO accession.

Negative impact of the WTO accession

- Uncompetitive state-owned enterprises can't compete with foreign companies
- Cheap imported products may devastate China's agriculture
- Growing inequality between industrialized states and rural provinces

Ideology mismatch

- People's interest in communism faltered as capitalism penetrated in China
- The cry for democracy has been increasing

Corruption and insufficient infrastructure

- Corruption of the Communist Party at every level
- Poor infrastructure (water, environmental management, law...)



# China as a collection of “Regional Economies”

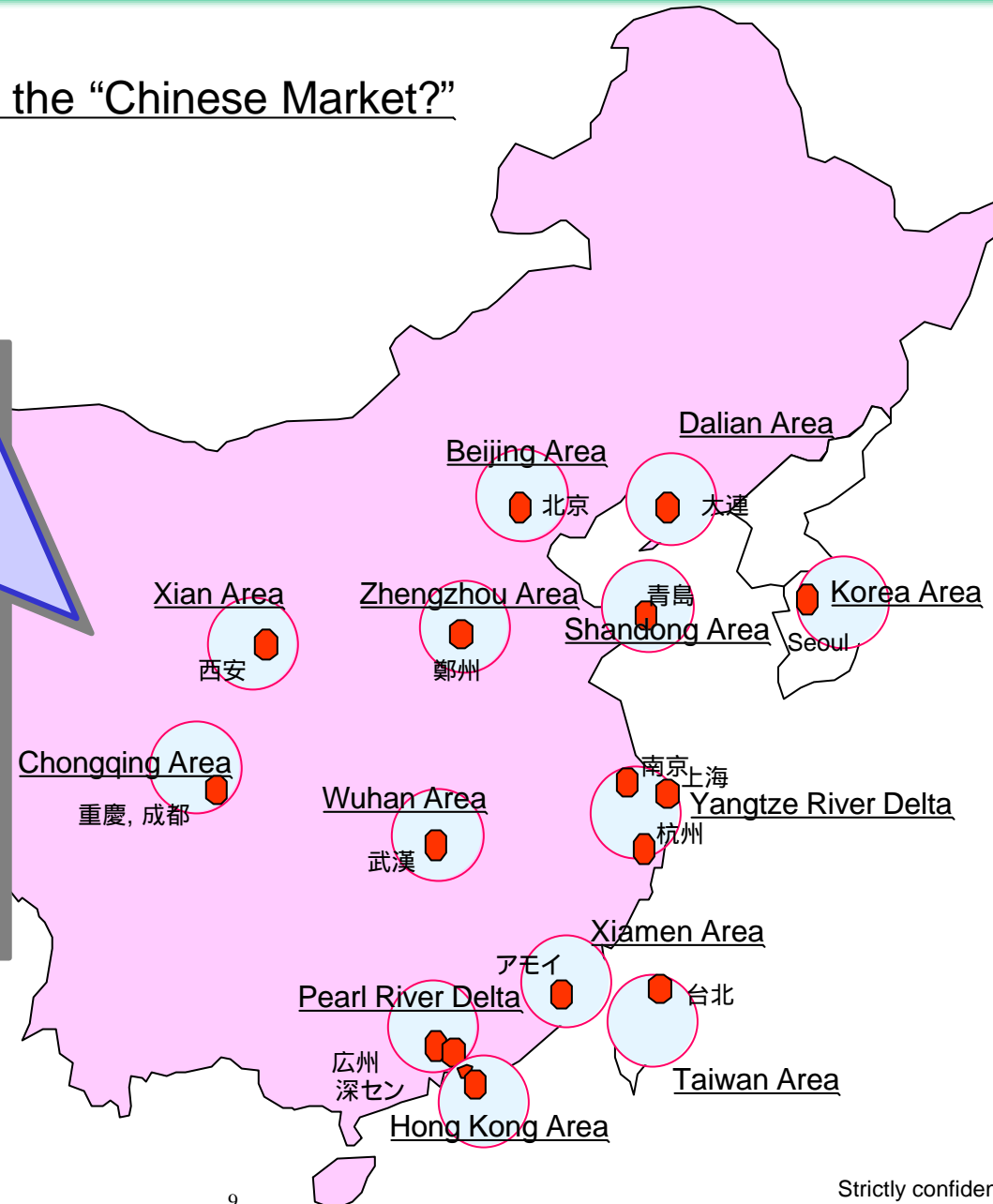


## What is the “Chinese Market?”

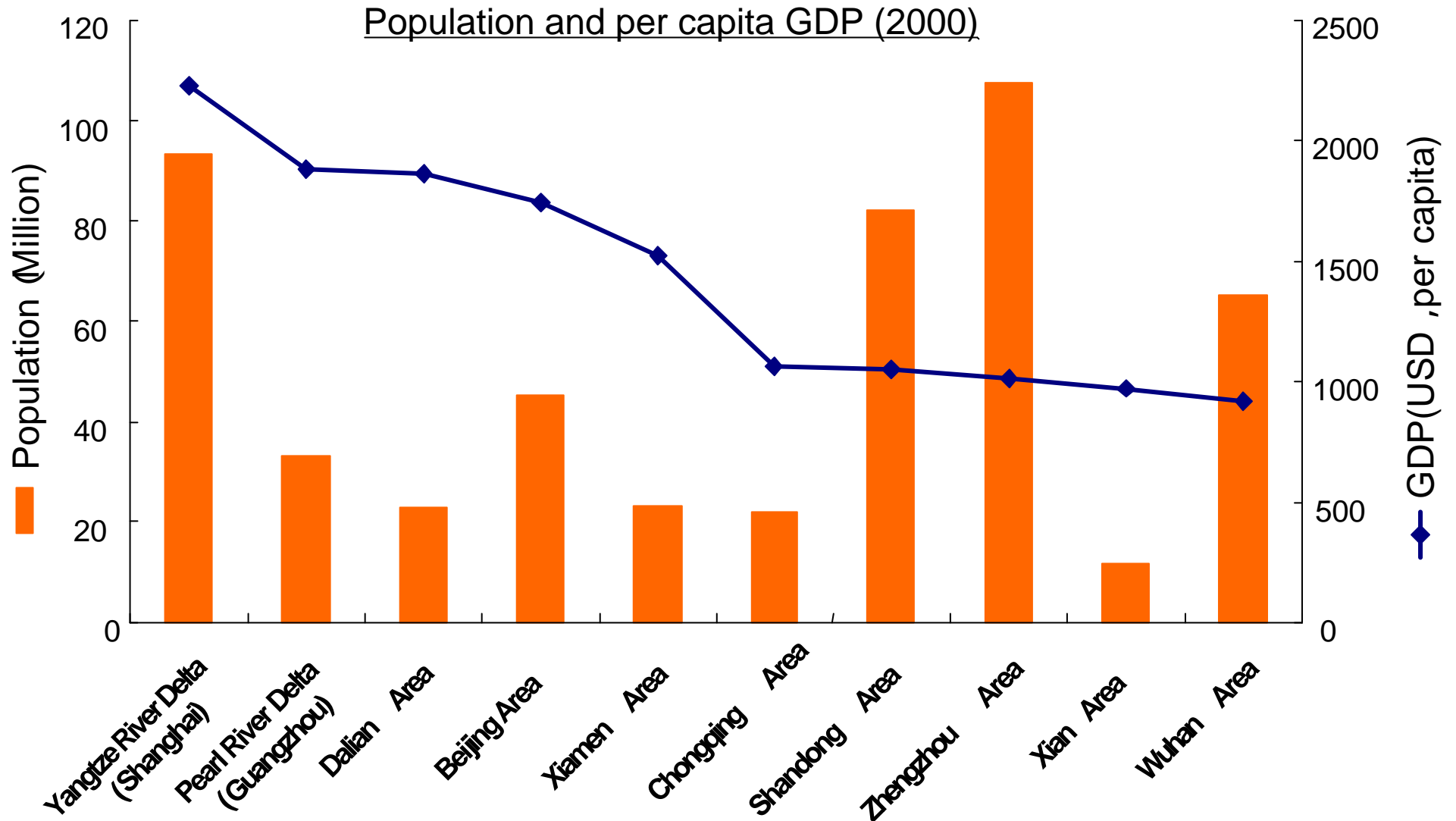
1.3billion people in one nation

BUT

- 23 regional states
- 56 ethnic groups
- Huge economic and cultural difference among regions



# Economic Difference among the Regions



Not a "monolithic" market



## Questions (Examples)

---

- 1. Is China a “threat” to Japan and the world?**
  - 2. What are the success factors for business in China?**
  - 3. What should the Government of Japan do?**
- ⋮