

An Overview of China and Japan Economic Relations and Interdependence

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Abstract. This paper explores the evolving economic relationship and interdependence between China and Japan, two of the world's largest economies. Since the normalization of diplomatic relations, Sino-Japanese economic ties have expanded from simple trade to a comprehensive, multi-faceted partnership, encompassing bilateral trade, investment, financial cooperation, and regional integration. Despite challenges such as anti-globalization, trade protectionism, and the impact of the COVID-19 pandemic, there is significant potential for collaboration in emerging fields like the digital economy, artificial intelligence, and public health. The analysis reveals an asymmetric interdependence, with China exhibiting sensitivity but not vulnerability in this relationship. This dynamic has implications for both countries' economic policies and regional stability. The paper also examines the role of power asymmetries and the strategic adjustments made by Japan, including its increased engagement with India. It concludes by emphasizing the importance of understanding this complex relationship for the development of future economic policies and regional stability.

Keywords: Sino-Japanese economic relations, interdependence, regional economic cooperation

1. Research Background

The economic relationship between China and Japan holds a significant position in international political economy. Both countries are major global economic powers, with China being the second-largest economy and Japan the third. The interplay between. Since the normalization of diplomatic relations, Sino-Japanese economic relations have evolved from trade expansion to comprehensive, broad, and multi-level cooperation. In recent years, despite the rise of anti-globalization, trade protectionism, and the impact of the COVID-19 pandemic, Sino-Japanese economic and trade cooperation faces new challenges but also broader prospects. Zhang Jifeng [1] points out that there is a vast space for cooperation between China and Japan in various fields such as bilateral trade, bilateral investment, financial cooperation, third-party market cooperation, and regional economic integration, especially in areas like digital economy, artificial intelligence, and cooperation in the prevention and control of new infectious diseases and response to aging societies. Moreover, the analysis of sensitivity and vulnerability in the Sino-Japanese economic interdependence relationship shows that while the Sino-Japanese trade relationship appears to be symmetrically interdependent, it is actually asymmetrically interdependent, with China having "sensitivity" but not "vulnerability" in mutual dependence. . Therefore, exploring the extent of Sino-Japanese economic interdependence and its impact on the economic policies of both countries and regional economic integration is of great significance for understanding the future development of the relationship.

2. State-of-art in China and Japan Economic Relations and Interdependence

2.1. Economic Interdependence

Economic interdependence refers to the value of economic transactions between two countries or between a country and other countries around the world. This dependency, which may be scaled relative to a nation's total output or the total amount of certain financial assets, can significantly influence the economic landscape and the operation of national economic policies [2]. These transactions are indicative of how tightly economies are interwoven, which in turn affects the autonomy of national policymakers and the strategic decisions they can make. As economies become more intertwined, policymakers face constraints

on their freedom of action due to the increased dependencies. The reactions to increased economic interdependence are diverse and multifaceted. On one hand, there are measures aimed at disengagement and reducing dependency to restore the freedom of national policymakers. On the other hand, there are attempts to coordinate national policy actions in various ways, seeking to harmonize economic policies across borders. Additionally, there is an ongoing search for new policy tools that are not as vulnerable to external pressures, or the choice to utilize tools that increase economic openness and mobility [2]. Discussions on economic interdependence also delve into the measurement of economic vulnerability and dependency, as well as how to assess these metrics [2]. These discussions highlight the importance of identifying levels of risk and vulnerability, making cross-country comparisons feasible, and thereby indirectly serving as benchmarks for assessment. These indices are crucial as they can ultimately serve as tools for formulating national economic policies and help address some of the concerns raised in the aforementioned debates [2]. Economic interdependence theory posits that mutual economic ties can foster peace and stability. The underlying premise is that countries with strong economic links are less likely to engage in conflict due to the mutual benefits derived from their economic relationships. However, this theory is not without its flaws. It often overlooks power asymmetries where one country may hold more economic leverage over another [3]. This imbalance can lead to situations where the more dominant country can exert significant influence, potentially at the expense of the weaker partner. Additionally, despite interdependence, competition for resources and markets can create tensions. In the global economy, such power asymmetries may be particularly evident in digital networks or currency relationships, which are often not symmetrical but highly centralized [4]. Countries at the center of these networks can use their privileged positions to gain economic and power advantages [5]. Economists tend to overlook these asymmetries in a world dominated by a single superpower that pledges to respect the international rules it helped create. However, in a world with two major rivals, these asymmetries become harder to ignore [5]. Furthermore, the dynamics of economic interdependence are not static; they evolve with changes in global economic conditions, technological advancements, and shifts in geopolitical power. For instance, the rise of digital economies and the increasing importance of data as a critical economic resource have added new dimensions to economic interdependence. Countries that lead in technology and innovation can exert significant influence over global economic trends, creating new forms of dependency and vulnerability. This evolving landscape requires continuous reassessment of economic policies and strategies to manage interdependence effectively. Additionally, the impact of economic interdependence extends beyond economic policies to social and environmental dimensions. Global supply chains, while enhancing economic efficiency, can also lead to environmental degradation and social inequalities. Policymakers must therefore consider a holistic approach that balances economic benefits with social and environmental sustainability. In conclusion, while economic interdependence offers opportunities for growth and stability, it also presents challenges that require careful management. Understanding the complexities and nuances of interdependence is crucial for developing policies that promote equitable and sustainable economic relationships in an increasingly interconnected world.

2.2. The Economic Relationship Between China and Japan

Then, let's focus more on the relationship between China and Japan. The economic relationship between China and Japan has undergone significant changes. Historically, interactions were limited and often conflictual. Post-World War II, Japan's rapid economic growth and China's opening up led to increased economic exchanges [6]. In recent decades, trade and investment have surged, creating a web of interdependence. For example, Japan has been a major investor in China, while China is a critical market for Japanese products [7, 8]. Despite political tensions, the economic ties between China and Japan remain strong. The Japan External Trade Organization (JETRO) emphasizes that Japanese companies are eager to cooperate with Chinese enterprises, especially in promising industries such as new energy vehicles, robotics, health products, and high-value food products [8]. Furthermore, with the entry into force of the Regional Comprehensive Economic Partnership (RCEP), economic cooperation between China and Japan has entered a new phase. RCEP is the world's largest free trade agreement, involving the world's second and third-largest economies [7]. By exploring these aspects, we can gain a nuanced understanding of Sino-Japanese economic interdependence and its implications for future interactions.

In the context of the rapid development of economic globalization in the 21st century, the economic relationship between China and Japan has reached an unprecedented level of interdependence [9]. Japan, as a world economic powerhouse, possesses a substantial amount of surplus capital, advanced technology, and scientific management experience, while China, as the largest developing country in the world, boasts abundant natural resources, ample labor resources, and a vast commodity market [9]. This complementarity and mutual benefit have led to a long-term virtuous cycle of Sino-Japanese economic cooperation [5]. Especially entering the new century, the economic interdependence between the two countries has undergone new changes, which are analyzed from four aspects: bilateral trade, direct investment, government development assistance, and technology introduction, and a brief analysis of the economic interdependence between the two countries using relevant data [9]. The reasons for the economic interdependence between China and Japan include natural resources, capital flows, import and export trade, and science and technology [9].

The Sino-Japanese economic relationship is characterized by complex interdependence, with sensitivity and vulnerability being key factors. Wang [10] analyzed the asymmetry in the Sino-Japanese economic relationship through the lens of power and interdependence theory, highlighting that China possesses sensitivity but not vulnerability in the dependency. This asymmetry grants Japan a certain political leverage. The trade between the two countries is primarily dominated by electromechanical products, with Japanese multinational corporations playing a significant role, rendering China relatively passive in trade.

Sensitivity interdependence emphasizes the speed and extent to which one country's policy changes impose costs on another, while vulnerability interdependence depends on the ability and cost of obtaining alternative options. Japan's reduction in investment in China and increase in India reflect its strategic adjustment in foreign economic policy, aiming to counterbalance China by strengthening cooperation with India. However, the size and growth potential of the Chinese market make it difficult for Japan to forgo economic cooperation with China. Therefore, the future development of Sino-Japanese economic relations will depend on how both countries balance sensitivity and vulnerability and adjust policies to achieve a more symmetrical interdependence.

3. Conclusion

In conclusion, the economic relationship between China and Japan is marked by complex interdependencies that have evolved over time. Both countries are significant players in the global economy, and their interactions influence regional and international economic stability. While economic interdependence theory suggests that mutual ties promote peace and stability, it also recognizes the inherent power asymmetries and competitive elements that can lead to tensions. Historically, their economic relationship has progressed from limited and conflictual interactions to a more intertwined partnership characterized by significant trade and investment flows. Understanding the nuances of this relationship and the degree of dependence each country has on the other is crucial for policymakers, businesses, and scholars. Future research should continue to explore these dynamics to provide deeper insights into the economic and political implications of Sino-Japanese interdependence.

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