

The revival of Sino-Japan Economic Ties

What is the issue?

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China-Japan has begun to improve their strained relations in response to the unpredictability created by the US administration.

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What were the disruptions in Sino-Japan trade?

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- China-Japan relations became strained in the new millennium over territorial and security-related issues.
- They reached a low point in 2012 over the disputed Senkaku islands.
- Japanese FDI into China reached a recent peak of \$7.4 billion in 2012 but declined over the next several years to a level of \$ 3.1 billion in 2016.
- In annual surveys, more Japanese companies were expressing their intention to exit China than those who wished to expand operations.
- The increasingly tense relations between the two countries had led the Japanese business to adopt the “China Plus One” strategy, or diversifying investment away from China.

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What is the recent trend in Sino-Japan trade?

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- Japanese FDI into China revived to a level of \$ 3.2 billion in 2017 and is expected to maintain an upward trajectory.

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- Japan-China trade has also resumed an upward trajectory, after declines registered post 2012, and was about \$300 billion in 2017.

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- Japanese business considers China's "Made in China 2025" initiative as a major opportunity.

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- The initiative has identified 10 sectors, including Artificial Intelligence, Robotics, Electronic Vehicles and Quantum Computing, where China plans to emerge in the ranks of the most advanced countries by 2025.

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- These are precisely the areas where Japan has significant capabilities.

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- Unlike the US and western European countries, which see the Made in China initiative as a threat to their technological dominance, Japan appears to have taken a different tack. India does not present a comparable opportunity.

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What are the challenges before India in this regard?

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- For Japan a rapidly growing Indian economy began to be seen as offering a scale and market comparable to China.

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- While Japanese FDI into India has increased significantly from about \$85 million in 2006-7 to \$4.7 billion in 2016-17, the anticipated surge in Japanese FDI has not materialized.

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- The accumulated stock of Japanese capital in China is over \$100 billion. For India, the figure is only \$25 billion.

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- With China once again emerging as an attractive destination for Japanese investment, India may be pushed to the margins.

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- Apart from this India-Japan trade has been declining in recent years from \$18.5 billion in 2012-3 to \$13.5 billion in 2016-17.

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- Indian exports halved from \$6.1 billion to \$3.8 billion in the same period.
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- Japanese business continues to have reservations about the investment climate in India.
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- But Japan continues to retain a higher comfort level doing business with China and South-East Asia than with India.
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Source: Business Standard

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