Challenges and Solutions in Japan–China Economic Relations in the Post-COVID Era

Hideo Tarumi

1 The Current Challenges We Face

The international community is now confronting three major transformations and challenges. The first is how to overcome the crisis stemming from the global spread of COVID-19 and the difficult situations involving challenges to human security. The second is the challenge against the universal values and international order that have so far underpinned the peace and prosperity of the international community, posed by such developments as protectionism and unilateral attempts to change the status quo. The third is the emergence of common challenges facing the international community, including globalization, digitalization, and climate change, together with emerging challenges such as those in new domains, including outer space and cyberspace, as well as economic security.

2 Japan–China Relations

Looking back at recent Japan-China relations, upon the inauguration of the first Abe Administration in 2006, Japan and China agreed to establish a “Mutually Beneficial Relationship Based on Common Strategic Interests” and have developed mutually beneficial cooperation at various levels across the board. Although this was followed by a period in which Japan-China relations turned cold, relation warmed when Premier Li Keqiang visited Japan and Prime Minister Abe visited China in 2018. In 2019, President Xi Jinping visited Japan to attend the G20 Osaka Summit and

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Prime Minister Abe visited Beijing and Chengdu to attend the Japan–China–Korea Trilateral Summit Meeting.

In the meantime, the flow of people from Japan to China as well as the flow of people from China to Japan has become a major trend. Before the COVID-19 pandemic in 2019, the number of Chinese tourists who visited Japan reached 9.59 million. The blockbuster movie “唐人街探案3 (Detective Chinatown 3),” which was released in China during the Lunar New Year in 2021, takes place in Tokyo and features the hustle and bustle of Shinjuku and a night view of Tokyo Tower. It is said that one of the reasons for the movie’s huge hit was that it won the hearts and minds of many Chinese audience who wish to travel to Japan but cannot due to the current cross-border travel restrictions.

This year marks the tenth anniversary of the Great East Japan Earthquake, and we will never forget that the international community, including China, provided a great deal of assistance to Japan. In 2020, in response to the unprecedented challenge of COVID-19, there were many heartwarming instances of mutual exchange of relief supplies such as masks and protective equipment at various levels between Japan and China. For example, it became viral that relief supplies sent from Japan to China came with a Chinese poem “山川异域风月同天” (“*although we are in different lands with different mountains and streams, wind and the moon are beneath the same sky*”). This poem was embroidered on a “kesa” (Buddhist stole) sent from the Japanese imperial family to Tang Dynasty China about 1,300 years ago. This episode once again symbolizes the underlying strength of the relationship that is the result of many years of cultural and economic exchange between Japan and China.

3 Japan–China Economic Cooperation

While Japan and China share a long history of exchange established by our ancestors, there has been a period of unfortunate history, and there are various pending issues and differences in positions between the two countries. Because such differences exist amidst the increasingly uncertainty in international affairs, we must establish a stable and constructive Japan-China relationship in which we can communicate at any time. To this end, it is important for both countries, which are mutually complementary, to promote cooperation on the economic front.

The first point should be the promotion of people-to-people exchanges and tourism in the post-COVID-19 era. Last year, Japan and China agreed to establish residence tracks and business tracks to resume people-to-people exchanges, but due to the COVID-19 situation in both countries, these are still extremely limited. First of all, it is necessary to make efforts to prevent the spread of COVID-19, but also to resume air flights as early as possible and to gradually resume travel as the situation dictates. We expect an early resumption of travel between Japan and China to further deepen mutual understanding through direct exchanges between the people of both countries and also to achieve the annual goal of 60 million foreign tourists to Japan by the year 2030.

The second point is to strengthen cooperation in the areas of healthcare and aging. Japan and China share the common challenge of an aging population. Promoting healthy, vibrant aging and developing medical services and technologies to maximize the health of people in an aging society are areas of common interest for both countries. To date, the two countries have yielded results in cooperation such as the holding of the “Japan–China Nursing Care Service Cooperation Forum,” a framework for cooperation in nursing care areas, twice, and the conclusion of 22 memorandums of cooperation on nursing care projects between Japanese and Chinese companies. We will continue to actively promote cooperation between Japan and China through a variety of means including the recommencement of the above forum.

The third point is the continuation of cooperation in the areas of the environment and energy conservation. In recent years, China’s efforts to tackle environmental issues have been remarkable such as tangibly improved air quality in Beijing. We welcome the efforts made by China. Environmental issues such as climate change and marine plastic are a global problem, which Japan and China should tackle together as great world powers and neighbors. We would like to cooperate actively in bilateral and multilateral scenes. On climate change, Prime Minister Suga announced last October that Japan will aim to reduce greenhouse gas emissions to net-zero by 2050 and achieve a decarbonized society. In a speech at the United Nations General Assembly in September last year, President Xi Jinping stated that China will aim to achieve net-zero carbon emissions before 2060. With the start of full-scale implementation of the Paris Agreement, we strongly expect that China will aim for not only “carbon neutral,” but also “climate neutral” which includes all greenhouse gases, to realize a decarbonized society as envisioned in the Paris Agreement. Japan would like to cooperate with China on such efforts. The Fifteenth Meeting of the Conference of the Parties to the Convention on Biological Diversity, which is scheduled to be held in Kunming this year, is an important conference in which a post-2020 global biodiversity framework for the next ten years, an alternative to the “Aichi Targets” for the previous 10 years, will be adopted. Japan was the one to come up with the “Aichi Targets,” and would like to contribute to its adoption.

Japan and China have held the ministerial-level “Japan–China Energy Conservation and Environment Comprehensive Forum” fourteen times and concluded a total of 402 cooperative projects since the first meeting in 2006. At the meeting in December last year, Japan and China confirmed their cooperation in areas such as hydrogen and carbon recycling. I expect that the two countries will continue to deepen their cooperation by making use of each other’s uniqueness through the forum and contribute to the realization of a virtuous cycle of economy and environment in the world.

4 China in the International Community

Now that Japan and China have become the world’s second- and third-largest economies, it is time for the two countries to not only cooperate bilaterally but also to work side by side and contribute to the region and the international community

as responsible great powers. A responsible great power should not coerce foreign governments by arbitrary measures backed by their economic might. Such practices would undermine the trust of the international community and regional prosperity.

Great powers should contribute to the international community in a manner that is appropriate for their power. Based on Japan's past experience, I would like to make few proposals to jointly address various issues in the areas of development and financial cooperation, debt issues, and trade and investment.

4.1 Development Cooperation

Firstly, regarding development cooperation, there is an annual funding gap of USD 2.5 trillion to achieve the SDGs target by 2030. Filling this funding gap is an important issue for the international community.

Given that China's GDP per capita now exceeds USD 10,000 and China has a large presence in the development sector, many countries expect China, as a great power, to proactively work to graduate from a recipient of support from international financial institutions as well as to contribute to the financing for more vulnerable developing countries.

Already in October 2018, the Government of Japan announced that it would stop sanctioning new ODA projects in China and promote cooperation in new dimensions where Japan and China are equal partners.

Statistics put together and published by the DAC do not reveal all the details of aid provided by non-DAC countries. It has been pointed out that non-traditional and non-concessional loans, such as secured lendings, are provided to developing countries. We strongly expect that the assistance provided by China and other emerging donors will be conducted in a transparent manner consistent with international standards and efforts.

4.2 Debt Issues

Secondly, the impact of COVID-19 has further deteriorated debt vulnerabilities in some developing countries. To support the global economy, it is necessary for the international community, including Japan and China, to cooperate in dealing with this issue.

To solve the debt issues of developing countries, it is necessary for developing countries to steadily advance structural reforms under the IMF Financial Assistance Program. For developing countries with severely deteriorating debt sustainability, it is necessary to restore debt sustainability by implementing debt measures resolutely and transparently, based on the "Common Framework" on debt relief approved by the G20, Finance Ministers and the Central Bank Governors Meeting last November.

We strongly expect that the China Development Bank, which has voluntarily implemented the Debt Service Suspension Initiative (DSSI) and disclosed the details of its implementation, will also implement debt measures based on the “Common Framework” in a highly transparent manner.

Since China is now the largest creditor for many developing countries, the loss of medium-term debt sustainability due to the insolvency of developing countries would be a serious loss for China. Working to solve the debt issue and supporting the sustainable economic growth of developing countries is the responsibility of major powers, exemplified by the G20, and will eventually be in China’s interest.

Regarding the debt data of developing countries, it is important to work toward ensuring transparency and accuracy not only when debt vulnerability is a concern, but also during normal times. If investors and developing countries themselves have a transparent and accurate understanding of debt data, it will help secure a stable inflow of investment to developing countries, which will in turn support sustainable economic growth. From this perspective, we expect that China, as a major creditor country, will work to ensure the transparency and accuracy of debt data, and cooperate with the IMF and World Bank in collating debt data.

4.3 WTO

Next, I would like to mention trade and investment. Twenty-five years have passed since the establishment of WTO, and many WTO members have enjoyed the benefits of free trade. It is not an overstatement to say that China, which joined the WTO in 2001 and achieved remarkable economic development through free trade, has become the prime example for such a member. In recent years, a few WTO members who have benefited from free trade and achieved economic growth have declared that they will abandon the S&DT (Special and Differential Treatment) status in current and future negotiations. China is currently the world’s largest trading country with the world’s largest trade value and trade surplus. It is imperative that we reform the WTO so that it can deal with various issues such as responding to unfair trade practices. We expect China, who takes pride in being a defender of the multilateral trade system, to act accordingly under the leadership of the new Director-General Okonjo-Iweala.

As digitalization progresses, the new rule-making on the Data Free Flow with Trust (DFFT) is a major task. The business community’s expectation toward e-commerce negotiations under the “Osaka Track” framework is also high. To restore trust in the WTO, based on the text of the integrated negotiations compiled last year, we would like to continue to accelerate negotiations in the hope of establishing high-standard rules for this year’s MC12 (Twelfth WTO Ministerial Conference). We expect China to support disciplines on the ban of domestic data storage requirements and protection of source code and encryption, which are essential for global digital business.

5 Industrial Subsidies and Overcapacity Issues

Although the global economy is currently in a recovery phase following the rapid decline in global demand caused by the COVID-19 crisis, the problem of overcapacity in industrial sectors such as steel and shipbuilding continues to be serious. This is an issue that flares up and becomes more serious each time there is an economic crisis. For a fundamental solution, it is necessary to address issues such as the abolition of market-distorting subsidies that lead to overcapacity, the appropriate implementation of competition laws, the strengthening of discipline on industrial subsidies, the guarantee of fair conditions for competition through the establishment of discipline on state-owned enterprises, and the promotion of structural adjustment in the medium- and long-term.

This is a global issue that requires a cooperative solution under a multilateral framework, which is something that China attaches great importance to, and cannot be solved without China's participation. The Global Forum on Steel Excess Capacity (GFSEC), which discusses the issue of overcapacity in the steel sector, is open to all member countries of the G20 and OECD. We would like to rack our brains together to achieve solutions based on international cooperation with China who is the world's largest steel producer.

6 RCEP

As concerns over protectionism grow worldwide after the outbreak of COVID-19, we were very pleased to sign the RCEP Agreement in November 2020 after almost eight years of negotiations, and we were able to send a message to the world that we will continue to promote free trade. The RCEP agreement improves market access and establishes rules in a wide range of areas such as intellectual property and e-commerce among countries at stages of development and with different systems, to promote regional trade and investment and improve supply chain efficiency. The total GDP, total trade value, and population of the 15 RCEP member countries, including Japan and China, account for about 30% of global value and will lead to further growth in the region, a growth center of the world.

Although India did not participate in the signing of the RCEP, we recognize that India has steadily achieved economic growth in recent years and is making progress toward becoming an economic power in the Indo-Pacific region. We believe that India's participation in the RCEP is significant. The Agreement stipulates that it is open for India's accession from the date of entry into force, and Japan seeks to continue to play a leading role from within the RCEP toward India's return to the agreement.

For Japan, the value of trade with RCEP member countries amounts to nearly 50% of Japan's total value of trade. Within this context, China is Japan's biggest trading partner, and the RCEP agreement will be the first economic partnership agreement

between Japan and China. Market access between Japan and China will significantly improve from the conventional tariff rates under the WTO agreement. In terms of rules, this is the first time we have made specific stipulations with China regarding the prohibition of technology transfer requirements and royalty regulations, the provision authorizing the authorities to reject and cancel trademark applications filed in bad faith, the prohibition of imposing restrictions on cross-border transfer of information, and the prohibition of requiring to locate computing-related facilities.

From now on, it will be important to work toward an early entry into force and steady implementation of the agreement and for India's return in the future. We strongly expect that all RCEP member countries, including China, will firmly comply with the protection of intellectual property, prohibition of imposing restrictions on cross-border transfer of information, and prohibition of technology transfer requirements, which are stipulated in the RCEP agreement, thereby improving the business environment in the region as a whole, and continue to urge India to return to the agreement.

7 Business Environment

Following China's reform and opening-up, many Japanese companies expanded their business into China, and there are currently around 33,000 Japanese companies in China. For these Japanese companies to conduct business with a sense of security, we expect the early entry into force and steady implementation of the RCEP agreement and efforts under the WTO, and we expect that China will further establish the rule of law according to international rules. In January 2020, the Foreign Investment Law and the Business Environment Improvement Ordinance came into effect in China. These include provisions that are useful for foreign companies doing business in China, and we recognize China's effort to develop its business environment. In the future, we expect that operations in areas such as government procurement, protection of trade secrets, prohibition of forced technology transfer, and free overseas remittances, are done even more appropriately following the purpose of the system, at all levels of government including local government. It is also expected that the new mechanism to deal with complaints by foreign companies, which began in October last year, to be firmly implemented.

Recently, there have been concerns that Japanese companies might leave China. According to a JETRO survey conducted in August 2020, only 1% of companies were considering relocating or withdrawing from China to a third country, while 92.2% were either expanding or maintaining their future business in China. In labor-intensive industries, there are cases where companies have moved their bases to other countries to avoid wage increases. On the other hand, however, China's middle class has been steadily growing due to rising wages, and China's presence as a growing mega-market will not change. In addition to its huge market, which has recovered quickly after being impacted by COVID-19, China also has a high level of technology

and a multi-layered supply chain, making the Chinese market especially important for global companies.

Thus, many companies are paying close attention to trends in China's business environment, but there are also concerns over China's legal system. In recent years, in addition to cyber-related laws, China has been preparing a data security bill and personal information protection bill, but the relationship between laws and regulations is complex, the definition of individual regulations is ambiguous, and there are many unwritten rules, which makes it difficult to assess their operational predictability. We strongly request that the free flow of data on a global level be ensured since digital data is an important source of added value for companies. Under the current legal system, Japanese companies are concerned that they will not be able to freely exchange information even between their headquarters in Japan and companies residing in China. It is required that China firmly address such concerns.

In China, following the release of the Cryptography Law, which came into effect last January, relevant regulations are being revised. However, there are voices of concern over the arbitrary implementation of the law since the definition of terms, screening requirements and the subject of regulations are unclear. For the intellectual property of foreign companies, including Japanese companies, to be protected adequately and for foreign companies to operate their businesses comfortably, it is essential to thoroughly ban the disclosure requirement of not only the source code, as stipulated in the cryptographic law, but also the algorithms. Similarly, we urge that the use of cryptographic technology based on international standards be allowed when complying with relevant standards.

In the area of exports from China and investments in China, beginning last year, a series of laws and reforms were released including an amendment to the "Prohibited Export and Restricted Technologies List" and the release of the Unreliable Entity List Provisions, the Export Control Law, the Measures for the Security Review of Foreign Investment, and the Rules on Counteracting Unjustified Extra-territorial Application of Foreign Legislation, raising concerns among Japanese companies over their transparency and operational predictability. If the uncertainty in the business environment increases, it will affect corporate management decisions. We urge the Chinese government to take into consideration international frameworks and limit the scope of these regulations, clarify regulations, and implement them transparently.

7.1 *Market Openness*

We welcome the fact that China has been gradually expanding its openness to foreign investment in recent years by working to reduce the Negative List for Foreign Investment, the Free Trade Zone Negative List, and the Negative List for Market Access. We expect that China will continue to further open its markets to ensure fair competition and to upgrade its industries. In the financial sector in particular, we hope that Japanese financial institutions, such as Japanese securities firms, will gain greater

market access and that Japanese banks will be granted bond underwriting licenses (class A lead manager, manager) sooner rather than later.

Regarding the negative list of foreign investment, we expect further limitations on particular items, such as restrictions on investment in value-added telecommunications services including online content distribution, data centers, and cloud services, and investment bans on movie production and distribution to be related. By taking these measures, Japanese companies will be able to further expand their economic activity in China and build stronger economic relations between Japan and China.

8 Import Restrictions on Japanese Agricultural, Forestry, and Fishery Products and Food Products

Finally, I wish to touch on import restrictions imposed by China on Japanese agricultural, forestry, and fishery products and food products in the wake of the Great East Japan Earthquake, which occurred ten years ago. Out of 54 countries and regions that imposed restrictions on Japanese agricultural, forestry, fishery products, and food products following the Great East Japan Earthquake, China is the only country that still restricts the import of a wide range of products from all 47 prefectures. Not only are imports of all agricultural, forestry, and fishery products and food products from ten prefectures (with the exception of rice from Niigata) banned, exports of vegetables, fruits, dairy products, tea, etc., from all of Japan's prefectures, including Hokkaido and Okinawa, are subject to strict Chinese restrictions. The Japan–China trade volume ratio of agricultural products is now 1:8.

Japan has some of the world's most rigorous food safety standards and has established a regime in which food products that does not meet safety standards after rigorous inspection cannot be distributed in the market. Major countries and international organizations have concluded that, scientifically speaking, the safety of Japanese food is without question. In fact, prior to the COVID-19 outbreak, many Chinese tourists visited Japan and were enjoying Japanese food. An expansion of agricultural trade between Japan and China benefits both countries as it will diversify China's import sources and contribute to an increase in the sophistication of more affluent Chinese consumers. We strongly expect China to make judgments from an objective and scientific point of view.

9 Conclusion

As protectionism and inward-looking tendencies spread worldwide, Japan has demonstrated its leadership as a flagbearer of free trade, starting from the TPP11 and building up to the Japan-EU Economic Partnership Agreement (EPA), the Japan-US Trade Agreement, the Japan-UK EPA, and RCEP among others. Last year, China

also expressed its determination to further promote opening-up by reaching agreements on the Phase One US-China Economic and Trade Agreement, the signing of the RCEP Agreement, and reaching agreements in principle on the EU-China Comprehensive Investment Agreement. Next year will be a memorable year as it marks the fiftieth anniversary of the normalization of diplomatic relations between Japan and China. I sincerely hope that Japan and China will work together side by side to build a free and fair economic order and rules-based system.

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