

Study on the Factors Affecting Sino-Japanese Bilateral Trade under the New Situation and Countermeasures

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Abstract: The New Crown Pneumonia epidemic has swept the world, hitting economies in varying degrees, and the US counter-globalisation forces have made a comeback, hampering China's economic development. In this new situation, the Japanese economy was hit hard by the epidemic, but bilateral trade between China and Japan grew against the trend. Based on this, by describing the current situation of Sino-Japanese trade in terms of its scale, trade balance, the proportion of China's exports to Japan to Japan's imports and trade integration, and systematically analysing the main influencing factors of Sino-Japanese trade cooperation, we then propose countermeasures to promote the development of Sino-Japanese bilateral trade. Namely, accelerating the negotiation of the FTA between China, Japan and Korea, enhancing political mutual trust as well as increasing investment in scientific research and enhancing the international competitiveness of export products.

1. Introduction

In 2020, a new coronavirus is ravaging the world. It has caused a recession in most of the world's economies and a resurgence of anti-globalisation forces in the US. However, China remains Japan's largest trading partner. In 2020, Japan's total exports and imports to China amount to US\$305,569 million, accounting for 23.95 per cent of Japan's exports and imports, outstripping the second largest share, the United States, by 9.23 percentage points and up 7.47 percentage points from 2004. Bilateral trade between China and Japan reaches US\$317.5 billion in 2020, up 1 per cent compared to the previous year. In terms of exports, China's total exports to Japan amount to US\$142.7 billion, a decrease of 0.4% compared to the previous year; China's imports from Japan amount to US\$174.9 billion, an increase of 2% compared to the previous year. By studying the current situation of bilateral trade between China and Japan, this paper systematically analyses the main factors affecting the development of bilateral trade between China and Japan, and then proposes countermeasures to promote the development of bilateral trade between China and Japan, with a view to expanding bilateral trade between China and Japan [1-2].

2. Current Status of Bilateral Trade between China and Japan

Overall, the scale of trade between China and Japan has continued to expand over the past decade, but growth has slowed due to the epidemic. The trade balance has remained relatively stable, with the Sino-Japanese trade deficit remaining unchanged, but the proportion of Chinese exports to Japanese imports is still expanding. China has always been an important trading partner and a huge market for Japan, and China and Japan are important export markets for each other.

2.1. Large Scale of Trade but Slowing Growth Rate

Although the scale of bilateral trade between China and Japan was large during the decade but the growth rate slowed down. As can be seen in Figure 1, the financial crisis in 2008 created a huge shock to the developing economies of the countries and the bilateral trade between China and Japan decreased rapidly, and the economy only started to recover in 2010. 2012, the bilateral trade between China and Japan started to decrease again, which was due to the deterioration of Sino-Japanese relations as the Diaoyu Islands issue caused a political disagreement between China and Japan. 2017, the bilateral trade between China and Japan again It began to grow until 2020, when the total trade between China and Japan reached US\$3,175.3, an increase of 0.8% compared to the previous year [3-4].

2.2. China Trade Deficit with Japan Persists

From 2010 to 2020, China's trade with Japan has been in deficit, as shown in Figure 1. Between 2010 and 2015, the deficit showed a downward trend, but after 2015 until now, China has maintained a deficit in trade with Japan, with a deficit of US\$30 billion in 2020. So what is the reason for this? Ultimately, it is due to the improvement of China's technological level and the strengthening of its economic power. As China's economic strength increases, consumers' needs are becoming more and more diversified, not just satisfied with simple consumption, but more focused on multifunctional products and services. It is therefore necessary to import a large number of capital-intensive products and technology-intensive products from abroad to meet the needs of consumers [5-6].

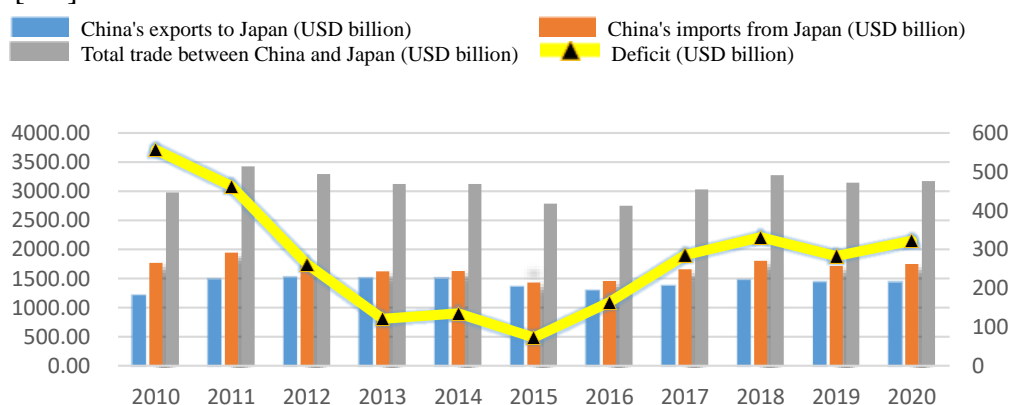


Figure 1: Bilateral Trade Volume and Deficit between China and Japan, 2010-2020

Data sources: Calculated from data in the UN comtrade database

2.3. China'S Exports to Japan as a Share of Japan'S Imports Continue to Expand

China's total exports to Japan are declining as a share of China's total exports. From 2010 to 2020, China's total exports to Japan as a share of China's total exports fluctuate. But the general trend is downward. It is clear from Figure 2 that in 2010, China's share of exports to Japan was 7.7 per cent, and that the share declined over the following decade, but remained between 6 and 7 per cent. By 2020, this share drops to 5.5%. In contrast, China's exports to Japan account for the largest share of Japan's total import trade. As shown in Figure 2, China's exports to Japan accounted for 17.4% of Japan's total imports from abroad in 2010 and remained relatively stable until 2012, after which the proportion began to rise, increasing to 21.7% in 2015. As shown in Figure 2, the share drops to 19.5% in 2020. However, in general, the share of China's exports to Japan in Japan's total imports from abroad has remained at around 20 per cent since 2010 to 2020, which is generally stable and does not fluctuate much [7-8].

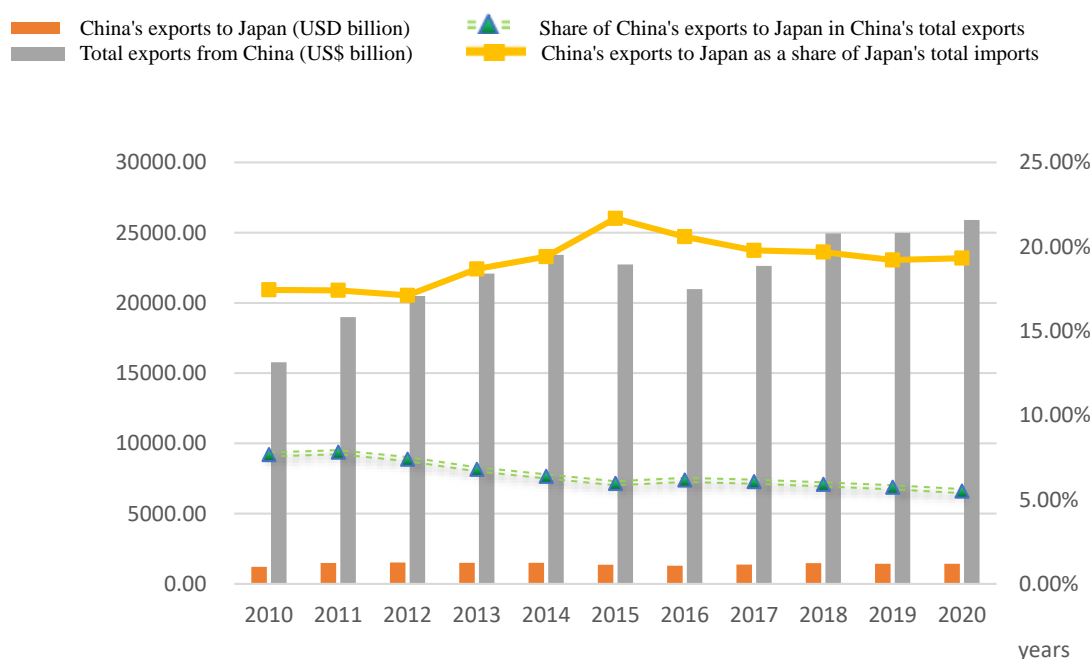


Figure 2: China's exports to Japan and its share from 2010 to 2020

Data sources: Calculated from data in the UN comtrade database.

2.4. China and Japan are Important Export Markets for Each Other

We can use the trade integration index to measure the degree of importance of China and Japan as each other's export markets. The index is calculated by the following formula: $(\frac{X_{ab}}{X_a}) / (\frac{M_b}{M_w})$. Where: X_{ab} indicates the degree of importance of country b as an export market country for country a; X_a indicates the total exports from country a to country b; M_b indicates the total imports of country b; M_w indicates the total imports of the world. If greater than 1, it means that country b is an important export market for country a and that country a is dependent on country b for its exports. Table 1 shows the trade integration index for China and Japan from 2010 to 2020 [9-10].

Table 1: China and Japan Trade Integration Index Table 2010-2020

Year	a China, b Japan	a Japan, b China
2010	1.68	2.49
2011	1.65	2.45
2012	1.51	2.22
2013	1.51	2.16
2014	1.46	2.24
2015	1.56	2.22
2016	1.61	2.26
2017	1.59	2.26
2018	1.52	2.20
2019	1.47	2.17
2020	1.48	1.84
Data sources: Calculated from data in the UN comtrade database.		

The table shows that both the China to Japan and Japan to China Trade Bonds Index are greater than 1. This indicates that China, as one of Japan's export markets, plays an important role in Japan's export trade and that Japanese exports are dependent on China. And Japan, as one of the export market countries of China, also relies on Japan for Chinese exports as the trade bond index is greater than 1. From 2010 to 2020, the trade bond index of Japan to China is somewhat higher than the trade bond index of China to Japan, which shows that Japan relies on our export market more than China relies on Japan's export market. The table shows that both China's trade integration with Japan and Japan's trade integration with China are weakening. This is mainly related to the Diaoyu Islands issue in 2012 and the impact of the New Crown Pneumonia epidemic in 2020. Although the trade integration between China and Japan is decreasing and the interdependence is weakening, the trade integration index exceeds 1 and China and Japan are still important export markets for each other. Meanwhile, Table 1 shows that China's trade integration index with Japan continued to fluctuate each year during the decade from 2010 to 2020, with the exception of 2015, when the index increased compared to the previous year, showing a continuous decline. This indicates that China's exports are still dependent on Japan as an export market. In 2012, the Diaoyu Islands incident caused political tensions between China and Japan, which also had a significant impact on the development of bilateral trade between Japan and China. Japan's trade integration index for China also showed a general decline over the decade. However, trade between China and Japan remains closely linked, relying on each other to export products and services [11-13].

3. Factors Affecting Bilateral Trade between China and Japan

At a time when the epidemic is hitting the economies of various countries hard, and despite the signing of the RCEP agreement between China and Japan, which is beneficial to the development of bilateral trade between China and Japan, there is uncertainty about cooperation between the two sides due to agricultural trade frictions, uneven development of manufacturing industries, and political factors. It is therefore necessary to study the influencing factors related to bilateral trade between China and Japan.

3.1. Agricultural Trade Frictions

Friction between China and Japan in agricultural trade constrains the development of bilateral trade between China and Japan. Agriculture is a relatively weak industry in Japan, and China has a

comparative advantage over Japan in agricultural products. Although the productivity of Chinese agricultural products is not high, China's large population and abundant land resources have contributed to lower labour prices compared to Japanese labour prices. This has kept China in a surplus position in bilateral agricultural trade between Japan and China. Japan has adopted non-tariff barriers to protect its agricultural development. For example, in 2003, imports of Chinese frozen spinach were banned to meet Japan's strict agricultural quality standards. Japan has also imposed severe restrictions on China in terms of tariffs, and the Japanese side has outlawed preferential tariffs for China, making Chinese agricultural products too expensive and thus unable to compete with their domestic counterparts. These protectionist actions have reduced the amount of agricultural products exported from China to Japan. Japan's trade protectionist behaviour has resulted in a large number of Chinese agricultural products being exported to other countries in large quantities, and the opening of new export markets is very difficult and can seriously affect the stable development of bilateral political relations between China and Japan. It is because of this constant friction between China and Japan trade that bilateral trade between China and Japan cannot develop rapidly and healthily [14-15].

3.2. Uneven Development of Manufacturing Industries

As a latecomer, China is in clear competition with Japan in the manufacturing sector. Japan sees China as a competitor due to the size of its economy, domestic market and human resources, which is difficult for Japan to match, and this has limited the development of bilateral trade between China and Japan. China's manufacturing industry is now slowly changing from its previous model of imitating other countries' products to one of absorbing foreign technology and innovating it. The proportion of manufacturing trade in the bilateral trade between China and Japan cannot be underestimated. In recent years, China's manufacturing sector has grown faster than Japan's, which has had a positive impact on China's economic growth and bilateral trade. However, in order to consolidate the development of its own industry, Japan imposes different types of technical barriers to trade on Chinese exports. Domestically, the development of China's manufacturing industry is also uneven, with fewer exports to Japan of technology-intensive products and other high value-added products. China's telecommunications equipment sector is developing rapidly, producing products that have a strong competitive advantage in the world market. However, our automotive production sector is developing slowly and lacks the core level of technology and innovation capability to compete with other countries in the international market, and can only meet the needs of our own consumers at home. Therefore, we cannot stop the pace of industrial upgrading for the manufacturing industry and should adjust the industrial structure to meet different market demands, thus promoting the growth of trade volume between China and Japan.

3.3. Lack of Political Mutual Trust

The historical legacy of China and Japan has prevented good bilateral trade between China and Japan. After the Second World War Japan did not apologise to China like Germany did, did not acknowledge the harm done to the Chinese people and tried to change history. They have no sense of guilt or desire to make amends for the innocent Chinese people who were brutally murdered by the Japanese in the Nanjing Massacre. These acts of Japan, which do not admit their crimes and have no sense of guilt at all, have also aroused the resentment and resistance of the Chinese people. In addition to the historical war issue, there is also a large dispute over the territorial issue of the Diaoyu Islands, which has slowed down the development of bilateral trade between China and Japan, and the bilateral trade volume between China and Japan has dropped sharply since 2012.

As long as there are political differences and frictions between China and Japan, bilateral trade between China and Japan will face great pressure from the political authorities, which will make bilateral trade between China and Japan increasingly tense and affect the development of bilateral trade between China and Japan.

4. Suggestions for Countermeasures to Promote Bilateral Trade between China and Japan

The Newcastle pneumonia epidemic has hit the pause button on the world economy and trade protectionism has resurfaced. In this situation, the uncertainty of bilateral trade between China and Japan has been enhanced, while there are various factors that hinder bilateral trade. Therefore, there is a need to propose corresponding countermeasures to promote the development of bilateral trade between China and Japan. The main ones include: accelerating the negotiation of the FTA between China, Japan and South Korea, enhancing political mutual trust, increasing investment in scientific research and strengthening the international competitiveness of export products. All in all, under the new situation, both China and Japan should try their best to eliminate the various unfavourable factors hindering bilateral trade and promote the stable development of bilateral trade between China and Japan.

4.1. Accelerating the Negotiation of the FTA between China, Japan and Korea

Since the outbreak, the Chinese economy has been steadily regulated during the epidemic. The US sees this as a big threat to the US and will hinder to the development of US industries. The US previously underestimated China's strength in achieving technological progress and the speed of its economic growth, and now they want to hinder China's industrial upgrading as well as its technological progress, as trade friction between the US and China intensifies. The US is now cracking down on China and has put hundreds of Chinese technology companies on a so-called "blacklist". Therefore, countries should strengthen their economic cooperation to resist sanctions from the US trade policy. China and Japan should accelerate negotiations on a China-Japan-Korea FTA, which would make trade between China and Japan less costly and more efficient, and would further expand bilateral trade between China and Japan, thus reducing the impact of US trade protectionism on the Chinese and Japanese economies. At the same time, in a situation where the epidemic and human beings may coexist for a long time, and thus the economies of China and Japan may be in a prolonged downturn, the construction of a China-Japan-Korea FTA can boost the economic vitality of both China and Japan and maintain stable economic development. Therefore, we should take the initiative to seek negotiation opportunities and actively promote the construction of the China-Japan-ROK Free Trade Area to provide a positive role for bilateral trade between China and Japan [16].

4.2. Enhancing Mutual Political Trust

The volume of bilateral trade between China and Japan will increase as bilateral relations improve and decrease as they deteriorate. The good or bad political relationship between China and Japan is of some importance to the economic and trade exchanges between China and Japan. Therefore, both sides should enhance political mutual trust and promote the healthy and friendly development of bilateral trade. Firstly, China and Japan should conduct frequent activities of high-level visits. The many problems and conflicts between China and Japan are long-standing and cannot be solved at once; they need to be resolved step by step. For this reason, when the two sides are facing problems in their relations, high-level visits to each other will save a lot of unnecessary trouble. If the top brass of China and Japan communicate face to face, then there will be less mutual

suspicion and the problems will be easier to solve. Secondly, both sides should learn to think differently. China and Japan should put themselves in each other's shoes and consider the problems. Then, both China and Japan have to build consensus. What is needed in their relationship is not only peace, but also friendship. Both sides have to identify points of common interest, understand what their needs are and those of the other side, and seek common ground while reserving differences on this basis. Finally, humanistic exchanges between the two countries should be strengthened. China and Japan are geographically close to each other; so many cultures in Japan and China are now similar. Humanistic exchanges between two countries with similar cultures can promote better relations politically as well as economically. This is because countries with similar cultures develop a sense of identity with each other and can bring both sides closer together. Regular cultural exchanges between China and Japan will allow the two countries to interact and build on their mutual feelings, thus laying the foundation for trade cooperation between China and Japan. However, infrequent exchanges will reduce the sense of identity and will hinder trade between the two sides [17].

4.3. Increase Investment in Scientific Research to Enhance the International Competitiveness of Export Products

Since the outbreak of Newcastle Pneumonia, the economies of all countries have been hit hard, and bilateral trade between China and Japan has been affected as a result. In order to respond positively to the outbreak and promote bilateral trade between China and Japan, it is crucial to increase investment in research and development to upgrade industries. According to the new structural economics theory, in order to promote economic growth, a country should focus on the production and export of products in which it has a comparative advantage. At present, China's comparative advantage is still labour-intensive products, so in the short term, products such as toys and garments will continue to be the products that China exports to Japan in large quantities. As the products exported to Japan generally have a simple production structure and low value-added products, and many of them are very dependent on Japan, so if Japan continues to adopt high tariffs and technical barriers to trade on our products, then China's exports will suffer a great impact. Therefore, we must increase our investment in research and development, and adjust our product structure to produce diversified products to meet the needs of different markets so as to improve the competitiveness of our products in the international market. In addition, our government should strongly support technology-intensive industries, actively introduce advanced technology from abroad, focus on technological progress and promote product quality, so as to increase China's exports of technology-intensive products to Japan.

5. Conclusions

As the two most powerful countries in East Asia, trade between China and Japan will not only benefit their respective economic growth, but will also have a positive impact on the prosperity and development of Asia. In the new situation, China's position in Japan's foreign trade is still not to be underestimated. Therefore, China and Japan should strengthen their economic cooperation and promote the common development of their economies. Based on the analysis of the current situation of bilateral trade between China and Japan, this paper identifies the factors affecting bilateral trade between China and Japan, namely trade friction in agricultural products, the existence of imbalance in manufacturing industries and the lack of mutual trust in politics. Finally, the corresponding countermeasures are proposed, namely, accelerating the negotiation of the FTA between China, Japan and South Korea, enhancing political mutual trust, increasing investment in scientific

research and enhancing the international competitiveness of export products, so as to promote the development of bilateral trade between China and Japan.

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