

Japan *and* China

**The Meeting of
Asia's Economic Giants**

Kazuo John Fukuda

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To my wife, Minnet Hsia Fukuda, with the hope
that China and Japan can prosper together
as good partners

ABOUT THE AUTHOR

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Preface

I was born of Japanese parents and raised as a Japanese in Japan. This should certainly make me a “real” Japanese as generally defined by the Japanese themselves. However, having spent the last thirty-six years away from the homeland, first in America and then in Hong Kong, chances are I would be considered by my fellow Japanese as a “*henna Nihonjin*” (strange Japanese), who looks Japanese but thinks and even behaves like *gaijin* (foreigners). Although I might have lost my cultural uniqueness as a Japanese, I have gained multicultural richness through years of living abroad.

For more than fifteen years, I have been investigating the transferability of Japanese-style management to East Asia. During that period, I visited mainland China frequently and built up *guanxi* (connections) with people in business and academe, who became the sources of firsthand information about China’s rapid economic and social changes. By luck, I was in the right place at the right time and personally witnessed China’s opening up to the world (December 1978) and then Hong Kong’s return to Chinese rule (July 1997). Concurrently, I also watched and followed Japan’s economic advance into China.

This is a book about Japan and China—two great Asian countries in their own rights, which are bound by a common cultural heritage, yet vastly different in many respects. At the moment, both countries are experiencing economic, social, and political reforms of an unprecedented scale. In the process of making reforms, they are casting aside their differences and working together to gain an equal footing with the industrialized West, economically and politically. To determine the global roles Japan

and China could play in the coming century, we must first understand Sino-Japanese relations in the context of the Asian region as a whole.

Spanning from Japan in the north to Indonesia in the south, East Asia is populated by more than 1.7 billion people whose cultures, politics, and economies differ as widely as the topographies of their countries. East Asia contains the world's second largest economy (Japan), which is now struggling to maintain its position as the economic superpower; the world's most populous country (China), which is fighting to become the next economic superpower; a tiny oil-rich sultanate with a population of only 300,000 (Brunei); and perhaps the world's last stronghold of "pure" capitalism (Hong Kong), whose sovereignty was just returned to China after more than 150 years of British colonial rule.

Despite diversities, the region's most dynamic economies share a common aptitude for melding new Western technologies with old Oriental virtues—diligence, discipline, and patience. Following in the footsteps of Japan, which rose to the rank of a world economic superpower in the 1960s, Asia's so-called "Four Little Tigers" (South Korea, Taiwan, Hong Kong, and Singapore) announced their economic coming of age in the 1970s. Today, they are joined by a new generation of "Four Baby Tigers" (Indonesia, Thailand, Philippines, and Malaysia) and, last but not least, the "Wakening Dragon" (China).

In 1950, following decades of war and turmoil, the Asian share of the world economy was a mere 17 percent. In the last three decades, Asia's rapid economic growth propelled this share to almost 40 percent. The crises in the region's currency and equity markets during the second half of 1997 created yet another turmoil throughout Asia. Still, it is expected that East Asia will be producing more than half of the world's income some time in the early decades of the next century. If in fact that

happens, the balance of world economic power would further shift from the West to the East.

In the mid-1990s, foreign direct investment (FDI) in East Asia accounted for 60 percent of the world total capital flows, with Japan the biggest supplier of investment capital. China, already the second largest recipient of FDI, is expected to overtake the United States as the world's number one recipient before the turn of this century. As foreign firms compete aggressively to capture the lion's share of potentially the world's largest consumer market, China is fast emerging as the economic power that might directly threaten Japan's once dominant position in Asia.

At the 1984 Summer Olympics in Los Angeles, Japan and China won thirty-two medals each. However, twelve years later, at the 1996 Summer Olympics in Atlanta, Japan won only fourteen medals and ranked eighteenth in final medal standings, well behind the fourth-ranked China, which won forty-nine medals. As China ascends the ranks of world sports, its fast-growing economy also continues to improve and is widely expected to become the world's largest as early as the year 2010. In the past two decades, China has introduced numerous economic and social reforms, while maintaining the political power of the Communist Party.

On February 19, 1997, Deng Xiaoping, who had presided over one of the greatest revolutions of modern times, passed away at the age of ninety-three. When his economic reforms began in 1978, about 250 million people in China—almost equivalent to the whole population of the United States—lived in what was defined by international standards as absolute poverty. Within ten years, this number had fallen by 150 million—the equivalent of the combined population of Philippines, Thailand, and Malaysia. Deng Xiaoping had succeeded in changing China on a grand scale, and his successor, President Jiang Zemin, announced that in the post-Deng era, continuity without change would be the country's priority.

By contrast, there are signs that Japan's economic dominance might have reached its peak, and its relative position could well be on a long downward slide. After more than four decades of rapid economic growth, the world's second largest economy is now in deep trouble. However, it may be premature to drop Japan from the rank of a world economic superpower. In the face of recent economic woes, Japanese firms are increasing the pace of internationalization through FDI. They have also shifted the main focus of their overseas investments from North America and Europe to East Asia, with China as the main recipient. By the early 1990s, China, when combined with Hong Kong, had become the second most popular destination of Japanese FDI as well as Japan's second largest trading partner, following the United States.

A glimpse of China's management practices today indicates that the country is in dire need of management reforms. The Chinese acknowledge backwardness in their management systems and are turning to the outside world for help. People native or foreign to Japan generally believe that the effectiveness of human resource management has been the key to Japanese firms' success in maintaining competitiveness. It was therefore quite natural that many Japanese firms attempted to employ their own way of management in China. However, the transfer of Japanese-style management, even to a culturally similar country, proved to be much more difficult than expected.

At the moment, Japan is at the crossroads—economically, socially, and politically. For a country struggling to get back on track, a call for “change or perish!” has offered a real challenge. Although most Japanese agree that changes are necessary, strong feelings of cultural uniqueness persist as enduring characteristics of Japanese society. Some are convinced that the Japanese should turn to the very roots of their culture as the source of light and strength. However, the old Japan is fast disappearing. Today, members of a new generation of Japanese, freed of traditional

cultural values, are increasingly taking charge of their country's drastic transformations toward creating the new Japan.

The Chinese have a long memory of Sino-Japanese military conflicts (1894-1895; 1937-1945), and they are fearful that Japan will once again become a military superpower. On the other hand, the Japanese are fearful that China will become an economic superpower, especially now with the emergence of "Greater China." In spite of fear, distrust, and suspicion toward each other, there are expectations on both sides that close ties and a healthy rivalry would help both countries enhance their opportunities to play greater roles, economically and politically, in Asia and the world, well into the twenty-first century.

Kazuo John Fukuda