New Trends in Sino-Japanese Economic Interdependence under RCEP

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Abstract. Despite the constant political friction between China and Japan, the economic and trade exchanges have been closely linked, and the degree of economic interdependence has continued to deepen. With the optimization of China's industrial structure and the enhancement of China's economic strength, the asymmetric Sino-Japanese interdependence is changing in a direction favorable to China, and China is gradually reducing its dependence on Japan's economy. The signing of RCEP marks the FTA relationship between Japan and China for the first time. A wide range of tax reduction commitments have been arranged, and mid-to-high-end intra-industry trade cooperation represented by mechanical and electrical products has been strengthened. RCEP is further facilitating the upgrading of China's industrial and export trade structure, thereby improving asymmetric interdependence. However, due to Japan's vigilance against China's rise and the deterioration of Sino-US relations, Sino-Japanese relations still face more significant uncertainty. Under the RCEP framework, opportunities and challenges coexist in Sino-Japanese relations. The two countries should actively leverage the advantages of economic interdependence to achieve mutual benefit and then promote political mutual trust through economic cooperation.

Keywords: Economic Interdependence; Sino-Japanese Relations; RCEP; Free Trade Agreement.

1. Introduction

In 1972, the Joint Communique of the Government of Japan and the People's Republic of China marked the beginning of the normalization of Sino-Japanese diplomatic relations. In the past fifty years, economic interdependence has continued to deepen, but political disputes have been frequent. Especially in dealing with historical issues, Japan's uncompromising attitude has seriously damaged Sino-Japanese diplomatic relations and aggravated the "cold" trend of politics and the "hot" trend of economics in recent years.

At the same time, the global economic recovery in the post-epidemic era is still facing difficulties, and the trend of trade protectionism and de-globalization is gradually increasing. As the two largest economies in East Asia, China and Japan actively promoted the signing of the Regional Comprehensive Economic Partnership (RCEP) in 2020, and it came into effect at the beginning of the 50th anniversary of normalizing diplomatic relations. RCEP is led by the Association of Southeast Asian Nations (ASEAN) and includes fifteen countries, including ASEAN countries, Australia, China, Japan, New Zealand, and South Korea. It is currently the world's most significant free trade agreement (FTA) regarding economic volume and export scale. Moreover, RCEP is the first FTA signed between China and Japan, further strengthening Sino-Japanese economic and trade cooperation. Therefore, it is of critical significance to understand the changes in Sino-Japanese economic and trade relations and the impact on political relations under the background of RCEP. This essay aims to explore the potential changes in Sino-Japanese economic and political relations after the RCEP comes into force from the perspective of interdependence theory.

2. Overview of Economic Interdependence Theory

The most famous study of economic interdependence is Robert Keohane and Joseph Nye's Power and Interdependence (1977), which details the role of interdependence theory in international mechanisms. Since then, scholars have expressed different views on the impact of economic interdependence on international relations based on their research.
Liberal scholars argue that economic interdependence promotes peace. Polacek (1980) confirmed a clear negative correlation between economic trade and political conflict [1]. Rosecrans (1986) also argues that with the deepening of interdependence among countries, the cost of war and conflict becomes unbearable, so war is considered an unwise solution to disputes [2]. In subsequent empirical studies, some scholars also agree with this claim of liberalism. For example, Kirchevsky (2007) analyzes the link between interdependence among Middle East countries and regional conflicts, arguing that countries with a high degree of economic interdependence are less likely to have conflicts [3].

In contrast, realist scholars argue that interdependence increases conflict. Barberry (1996) believes that the increasing degree of interdependence may increase the possibility of military conflict [4]. Now that the trade conflict between the US and China is intensifying, Roach (2020) argues that economic interdependence in recent years has not improved the political relationship between the two countries but has played a destructive role. For example, the United States blames China's trade behavior for causing the United States to be at a disadvantage of a long-term trade deficit, which in turn creates serious unemployment problems [5]. Realist scholars also emphasize the asymmetry of interdependence and the resulting power problems. A country more dependent on the other may use military means to counter pressure for its interests [6]. In summary, realism argues that the greater the degree of interdependence, the greater the likelihood of conflict due to the desire for power and concerns for security.

The discussion of economic interdependence applies equally to the study of Sino-Japanese relations. Scholars have focused on the structural asymmetry of Sino-Japanese economic interdependence. The differences in the domestic economic structures of China and Japan led to Japan's stronger control over Sino-Japanese economic and trade relations in the decade of the early 2000s [7]. Some Chinese scholars believe that the asymmetric interdependence of Sino-Japanese trade has been developing in a beneficial direction for China since the early 21st century [8,9]. Some scholars emphasize the importance of realist viewpoints to Sino-Japanese relations and believe that national security is the core interest, and security conflict is the most fundamental conflict [10]. Other scholars believe that the close economic and trade relationship between China and Japan will weaken the short-term adverse effects of political conflicts [11].

The differing views of liberalism and realism illustrate the complexity of interdependence theory. As some scholars conclude, interdependence does mean not only the existence of mutual benefits but also the emergence of conflicts [12]. Early theoretical research provided a reliable theoretical basis for subsequent empirical research, but a single theoretical perspective gradually could not adapt to the current complex and changeable international environment. Existing research on Sino-Japanese relations has made up for the inadequacies of earlier studies in studying interdependence from a static perspective and has paid more attention to the dynamic trends in Sino-Japanese interdependence. This lays the foundation for analyzing the development of Sino-Japanese political and economic relations after the signing of the RCEP. However, since most of the research focuses on the beginning of this century, the discussion of the current situation needs to be supplemented. There is also a lack of research perspectives comprehensively analyzing bilateral relations from domestic to international levels.

Combining the two theoretical perspectives of liberalism and realism, this essay analyzes the new changes in the current Sino-Japanese interdependent structure from a more comprehensive perspective. While affirming the positive effect of RCEP on Sino-Japanese economic relations, it also considers the national security issues brought about by unique historical and political relations. This essay comprehensively considers domestic and international factors, focusing on the foreign policy of the new Japanese cabinet and the impact of the deterioration of Sino-US relations on Sino-Japanese relations.
3. Changes in Sino-Japanese Economic Interdependence

As essential trading partners, China and Japan are increasingly interdependent in the economic field. According to Japanese customs, the import and export amount between China and Japan in 2008 was $268.63 billion, and the trade volume increased to $317.53 billion in 2018. Among them, Japan's exports to China increased from $125.02 billion to $143.99 billion, and Japan's imports from China increased to $173.54 billion from $143.61 billion. Although due to the disruption of the global economic slowdown, the bilateral trade volume between China and Japan dropped by 12.2% in 2015 compared with the previous year, the overall trade volume has been growing steadily [13].

After China's trade liberalization in the last century, Sino-Japanese economic and trade relations have shown apparent asymmetry and complementarity. Japan's natural resources are relatively scarce. After the strategic transformation of the industry, the rapid development of Japan's information technology industry has led to the development of high-value-added industries such as semiconductors, automobiles, and machinery. However, China saw agriculture as the backbone of its economy, and its industrial structure showed a low-level feature. Japan mainly exports industrial products such as machinery and chemical products to China.

In contrast, China's exports to Japan are mainly primary products, including raw materials, food, fossil fuels, and textile products [14]. The above shows that Japan's sectors with solid foreign trade competitiveness are mainly distributed in capital and knowledge-intensive industries. Differently, in China, they are labor and resource-intensive industries. The Sino-Japanese trade structure shows the characteristics of vertical trade between industries, which means that Japan has stronger trade control, while China is relatively at a disadvantage [8].

With the further opening of China's economy, by the end of the 20th century, the structure of China's exports to Japan began to change, and mechanical and electrical products gradually became one of the leading industries of Sino-Japanese trade. Intra-industry vertical trade represented by mechanical and electrical products has become a new feature of the Sino-Japanese trade structure. Since the 21st century, China's economy has genuinely integrated into the global economy because it acceded to the WTO. Due to the complementarity of development factor endowments with developed countries such as European countries and the United States, China's export trade volume has grown and shown a significant trade surplus. As the "world's factory", China has exerted its advantages in labor resources in the international trade system, vigorously developed processing and manufacturing trade, and reconfigured labor elements in China's industrial structure, promoting the optimization of export trade categories and rapid economic development.

As a result, the economic interdependence structure of China and Japan has also shown corresponding changes. According to the country trade report, Japan's main exports to China in 2018 were mechanical and electrical products, chemical products, and transportation equipment, accounting for 43.1%, 11.5%, and 9.7% of the total amount. Moreover, China's main exports are mechanical and electrical, textiles, furniture, and toys accounting for 45.5%, 12.6%, and 6.2% of total exports, respectively. Among them, the export value of mechanical and electrical products increased significantly from $53.46 billion in 2008 to $78.90 billion [13]. It can be seen that although China's labor-intensive products still maintain a large proportion, the proportion of medium and high-end products represented by mechanical and electrical products is also increasing. Intra-industry trade of mechanical and electrical products has become the largest industry in Sino-Japanese trade.

In 2021, Japan became China's fourth-largest trading partner, and China continued to be its largest trading partner in Japan. Under the influence of the deteriorating global trade environment and the epidemic, Sino-Japanese trade still showed strong growth. However, due to the strengthening of exchanges between China and others, the proportion of Sino-Japanese trade volume in China's total import and export has dropped from 10.02% in 2010 to 6.14% in 2021. However, Japan's total import and export proportion remains at a high level of 23.89% [15]. This shows that China's trade dependence on Japan is gradually decreasing. At the same time, Japan still maintains a high degree of dependence on China's exports, and Japan is still unable to find new partner countries to replace China. This means that the Sino-Japanese economic interdependence structure is undergoing dynamic
changes, and Japan has shown a stronger dependence on China and trade vulnerabilities. The relationship between the two countries is gradually changing from profound asymmetry to mutual dependence, and trade relations are beginning to develop in a beneficial direction for China [9]. At the same time, the competitiveness of Japan and China in foreign trade is constantly emerging along with the optimization of China's industrial chain and export trade structure.

4. RCEP and Sino-Japanese Economic Interdependence

Against the trend of anti-globalization and rising trade protectionism, as the world's largest free-trade area in the field of economic volume and import and export scale, RCEP integrates complex trade networks in the Asia Pacific. Furthermore, RCEP is the first FTA signed between Japan and China, further improving the structure of Sino-Japanese economic interdependence.

4.1 Attitudes of China and Japan towards RCEP

For China, establishing RCEP can positively promote the implementation of the Belt and Road Initiative (BRI) and provide a reliable guarantee for constructing the "Maritime Silk Road". In promoting the BRI construction, China actively promotes regional economic cooperation and adheres to the core position of ASEAN countries in the East Asian regional cooperation. China actively promotes the RCEP negotiations, hoping to expand the scale of export trade further and promote supply-side reforms through RCEP. By increasing investment in the construction of high-value-added and high-tech industries, the structural adjustment of the agricultural industry will be promoted, and the development of service trade will be accelerated.

However, the attitude of Japan in the negotiation stage of RCEP is significantly different from that of China. As one of the few developed countries in Asia, Japan implements an industrial development strategy known as the "flying geese model", making direct investments in East Asia to drive the industrial upgrading of East Asian countries. While establishing a stepped industrial division system in East Asia, Japan mastered the dominance of East Asia's economy and trade. However, due to historical problems, Japan has not realized its vision of East Asian economic cooperation. With the improvement of China's political and economic strength, Japan has always maintained a high degree of vigilance against China. As for ASEAN's proposal of "10+3" regional economic integration, Japan has raised objections out of consideration of regional dominance and self-interest. Japan proposed to add three countries, Australia, New Zealand, and India, to form a "10+6" Asia-Pacific system to contain China.

Japan's hostile attitude considerably slowed down the progress of the RCEP negotiations. Compared to RCEP, Japan's primary goal at that time was to promote the establishment of the US-led Trans-Pacific Partnership (TPP). As a developed country with a high level of industry and services, Japan expected to establish higher trade standards in RCEP based on the TPP to seek more benefits. However, because the economic development status of RCEP member countries is quite different, such a proposal has seriously slowed the progress of RCEP [16]. In 2017, with Trump's announcement that the United States was withdrawing from the TPP, Japan became the dominant player in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and once again emphasized the role of RCEP in Japan's "giant FTA" strategy.

4.2 Arrangement of Sino-Japanese Trade in Goods

According to the RCEP bilateral tariff reduction arrangement, the zero-tariff coverage rate of products exported from Japan to China will gradually expand to 86% from the original 8% [17]. In 2018, Japan's main export products to China were transportation equipment, chemical products and mechanical and electrical products, and the export values were $13.92 billion, $16.52 billion, and $62.01 billion, of which the total export value of mechanical and electrical products in 2019 increased to $80.04 billion [13]. According to the agreement, China further reduces the tariff setting of mechanical and electrical products. Similarly, Japan has implemented a zero-tariff policy for most of
China's mechanical and electrical products. The zero-tariff coverage of industrial products exported from China to Japan will be increased from 47% to 98% [18]. The substantial tax reduction and exemption arrangement for mechanical and electrical products show the deepening of Sino-Japanese trade cooperation in this industry and the upgrading of China's industrial structure and export trade structure. It also confirms the dynamic changes in the structure of Sino-Japanese economic interdependence. At the same time, it should be noted that in the mechanical and electrical industry, China has always been in a trade deficit. The mechanical and electrical products imported and exported by China and Japan have evident complementarity to product types. China has an export advantage in the labor-intensive processing of products such as mobile phones and computers. In contrast, Japan has a competitive advantage in high-precision electromechanical products such as integrated circuits and semiconductors. This feature of intra-industry complementarity enables the Chinese and Japanese mechanical and electrical industries to better leverage their respective advantages under the agreed tariff reduction and exemption policy, thereby deepening intra-industry trade cooperation.

In addition, Japan and China have further tax reductions and exemption arrangements for products from different industries, showing that the two countries have different levels of protection for domestic industries. Japan has high tariffs on animal products, food and drinks, vinegar, leather, fur, and light industrial products and low tariffs on most other products. China's tariffs are more even across industries. A more extended tax reduction period is set in China, while Japan's approach is to implement broad direct tax exemptions for non-sensitive industries but protection measures for sensitive industries [19]. Tariff reductions lead to lower prices of imported goods, and exporting companies would be in an advantageous position with more significant opportunities, while relatively disadvantaged companies may suffer from severe import shocks.

4.3 Impact on Sino-Japanese Economic and Trade Relations

RCEP increases the coverage of the Sino-Japanese free-trade area and intensifies trade cooperation. The large-scale tax reduction and exemption arrangement between China and Japan can further deepen the cooperation in intra-industry trade such as electrical and mechanical products, actively utilize the complementary superiority of Sino-Japanese trade, and promote the trade scale and economic growth of China and Japan. Moreover, implementing regional cumulative rules of origin can further promote the flow of production factors between China and Japan, effectively reduce production costs, and promote the re-exporting of raw materials after processing. In addition, Japan and China have also strengthened investment cooperation in multinational enterprises to share new development opportunities.

Under the RCEP framework, China also focuses on increasing trade exchanges with ASEAN countries. Through foreign investment, China may further transfer its surplus production capacity and labor-intensive industries, such as manufacturing, to other countries in the East Asian region, thereby realizing further transformation of its domestic industries. This indicates that the export trade structure between China and Japan may be more remarkable in similarity. In trade with other countries in the region, some Chinese and Japanese exports are more competitive, and China is gradually reducing its dependence on Japanese exports. According to statistics from the General Administration of Customs of China, the total import and export volume of the two countries from January to August 2022 was $238.985 billion, a decrease of 1.3% from last year. China's total exports to Japan totaled $114.281 billion, an increase of 6.6% over the same period last year, while China's total imports from Japan decreased by 7.5% over the same period last year to $124.705 billion. However, the total amount between ASEAN and China increased by 13.3% year-on-year to $627.579 billion [20]. Therefore, Japan may attach more importance to its control of Sino-Japanese relations and its dominance in Asia-Pacific, and may join hands with the United States to increase checks and balances on China, resulting in further deterioration of Sino-Japanese relations.
5. Challenges Posed by the International Community

Although RCEP has brought many benefits to Sino-Japanese economic and trade cooperation, the complex international situation and the corresponding foreign strategies adopted by Japan still bring uncertainty to the future of Sino-Japanese relations. In the face of increasingly fierce Sino-US confrontation, Japan is constantly adjusting its diplomatic hedging strategy to safeguard its national security and economic interests.

Beginning in 2012, the Abe cabinet emphasized a realist foreign policy and took the Japan-US alliance as a national strategy [21]. Regarding the South China Sea issue, Japan has strengthened its security diplomacy with Southeast Asian countries and provided logistical support for US military activities in the South China Sea. Furthermore, Japan has maintained a negative attitude towards the Belt and Road Initiative, showing an apparent confrontational attitude. The tough attitude towards China has seriously affected Sino-Japanese relations and damaged the economic interests of China and Japan. However, the "America First" principle pursued by the Trump administration has seriously harmed the interests of countries such as Japan. Especially in 2017, the withdrawal of the US from the TPP severely hit Japan's strategic intention to master the Asia-Pacific regional economy. This forced Japan to strengthen economic cooperation with China to hedge against the negative impact of the "Trump shock".

In 2021, the Biden administration and the cabinet of Fumio Kishida were established one after another. The Kishida cabinet continued the "Abe line" advocated by the Abe cabinet with the Japan-US alliance as the main content and frequently put pressure on China in terms of political security [22]. Moreover, Japan has actively launched the "Quartet Security Dialogue" with the US, Australia, and India, mainly discussing topics such as the new crown epidemic, climate change, and infrastructure construction. However, it is worth reminding that the content of the joint statement "strongly oppose any coercive, provocative or unilateral actions aimed at changing the status quo in the Indo-Pacific region" shows obvious pertinence to issues such as the South China Sea and Taiwan. The "Indo-Pacific strategy" led by the United States shows strong exclusivity and confrontation. It is seen as an attempt to divide the Asia-Pacific region, contain China's economy, and maintain American hegemony.

The conflict of identity in political and economic aspects forces Japan to adopt a hedging strategy in Sino-US strategic competition to protect its national security and economic interests. Relying on its advantages in economic relations, Japan has frequently put pressure on China on political issues, leading to constant conflicts between China and Japan. However, due to the close economic ties, the conflict was limited to a particular scale, and there was no severe conflict escalation. But in such an international environment, Japan may further strengthen its confrontation with China's hedging strategy, even at the cost of damaging Sino-Japanese trade relations in exchange for the United States' support and assistance to Japan in the field of geopolitics and national security. As the competition between China and the United States intensifies, Japan may further strengthen its confrontation with China, even at the cost of sabotaging Sino-Japanese trade relations in exchange for the United States' support and assistance to Japan in terms of national security. This may undermine the economic interdependence structure of China and Japan, cause severe economic losses to the two countries, and threaten the security and stability of East Asia.

6. Conclusion

Since the normalization of diplomatic relations, despite constant political friction, the economic interdependence between China and Japan has continued to deepen, and trade cooperation has become closer. The economic interdependence structure shows the characteristics of asymmetry, and the industrial structure of China and Japan shows vertical complementarity. However, with China's industrial upgrading, the interdependence relationship is changing towards symmetry. The entry into force of RCEP marks the first time China and Japan have established FTA. China and Japan have set up a wide range of tax reduction and exemption policies for trade in goods, further strengthening the
mid-to-high-end intra-industry trade represented by mechanical and electrical products and strengthening cooperation in service trade and investment.

Under the reality of China's rapid economic growth, RCEP may accelerate China's transfer of labor-intensive low-end and middle-end industries to ASEAN countries and further upgrade China's industrial structure. It is suggested that China can learn from the experience of Japan's industrial transformation, optimize the industrial structure in light of China's national conditions, enhance the international competitiveness of its industries, and promote the transformation of Sino-Japanese trade cooperation from vertical to horizontal. This shift in the structure of Sino-Japanese economic interdependence means that China is gradually reducing its dependence on the Japanese economy. As its status in the bilateral relationship rises, China has a more significant say in the political arena, stabilizing the economic interdependence between the two countries.

In the past, due to the close economic ties between China and Japan, political conflicts were kept within a controllable range. However, affected by the confrontation between China and the US, and especially the difficult situation since the Russian-Ukrainian crisis in 2022, the world order has become more camp-oriented, and the liberal view that deepening interdependence will promote peace between the two countries may no longer apply to the current complex Sino-Japanese relations. There is a tendency for Japan to give priority to the geopolitical environment and national security over its economic interests, thus seriously undermining the relationship between Japan and China.

Therefore, it is suggested that China and Japan should fully develop their respective industrial advantages in cooperation under the RCEP framework so as to achieve mutual benefit. Also, closer economic relations between Japan and China may play an important role in promoting the improvement of the industrial chain in the Asia-Pacific and even the world. More importantly, it is recommended that China and Japan handle political conflicts prudently, strengthen security cooperation, and reach a consensus on issues such as the South China Sea and Taiwan at an early date. And the two countries can achieve the reconstruction and development of political mutual trust through the improvement of the economic interdependence structure.

References