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The Sino Stranglehold

How badly could the Chinese protests hurt Japan's economy?

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Anti-Japanese riots aren't a new phenomenon in China, but the ongoing demonstrations across the country have surpassed previous outbreaks in both their **extensiveness** -- over a hundred cities -- and their perfervid declarations. One banner, hung over an Audi dealership, declared that the Japanese should be **exterminated**; another **called** for a nuclear strike on Tokyo; a woman's hospital featured a neon sign announcing that Japanese females would absolutely not be treated. The issue of sovereignty over the uninhabited islands, known as Diaoyu to the Chinese and Senkaku to the Japanese, sparked China's fevered response. Protestors threw eggs and water bottles at the Japanese embassy in Beijing; at least one city reportedly banned Japanese cars from its streets to protect their occupants; a television station in Guizhou province **reportedly** stopped airing commercials for Japanese businesses. Most worryingly, one of China's highest ranking military officials, vice-chair of the Central Military Commission Gen. Xu Caihou, **told** the People's Liberation Army to be prepared for combat.

Share on twitterTwitterShare on redditReddit+More... Despite their intensity, these demonstrations, like the half-dozen that preceded them over the past 25 years, are abating. In the past, China has long been able to hold Japan's economy hostage after political disputes, and it is likely to get its way economically this time as well. The two economies are deeply interlinked; **trade between them** in 2011 was worth almost \$350 billion. China is Japan's largest trading partner and absorbs just under a fifth of Japan's total exports; Japan is China's third-largest trading partner, after the European Union (EU) and the United States. China's economy, which overtook Japan's as the world's second largest in 2011, is **expected** to grow at the reduced but

still healthy rate of more than 7.5 percent in 2012; Japan's economy by contrast could **contract** in the third quarter of this year.

Though it never recovered from the bursting of its economic bubble in 1990, Japan remained the world's second-largest economy until China edged it out of that spot in 2011. The triple earthquake-tsunami-nuclear meltdown of March 2011 curtailed domestic auto production; **disastrous floods** in Thailand in October of that year closed Toyota, Nissan, and Honda factories. Shortages of power resulting from the shutdown of reactors and strong public sentiment for ending reliance on nuclear energy meant fuel shortages and higher electric bills. To make matters worse, the global economic downturn depressed demand for the country's exports, and a strong yen made Japanese products less competitive in world markets. In that same *annus horribilis*, Japan recorded its first trade deficit since 1981. Japan's exports to China had dropped 7.3 percent in 2011, not as bad as the 21.3 percent decline in those to the EU that same year, but worrisome nonetheless. Indeed, despite periodic frictions between Tokyo and Beijing, trade with China in 2011, and in the past decade, had been the brightest spot in the Japanese economy.

A boycott of Japanese goods has the potential to hurt Japan badly; the effects are difficult to calculate but likely in the billions of dollars. In 2002, Japan banned imports of Chinese onions, mushrooms, and rushes -- the latter used in the production of tatami mats for the floors of traditional Japanese homes. Beijing responded by suspending imports of Japanese cars, air conditioners, and cell phones. Japanese car manufacturers complained that the lost sales in autos would amount to roughly \$3 billion in losses (according to the 2002 exchange rate), Japan capitulated eight months later.

In September 2010, when the Japanese government refused to release the captain of a Chinese fishing boat after he rammed two of their ships, Beijing **imposed** a ban on exporting rare earths - elements crucial to many high-tech products like smartphones, flat-screen TVs, and the Toyota **Prius** -- to Japan, subjected its imports to an excruciatingly slow inspection procedure, and advised its tourist agencies not to book groups to visit Japan.

Suspension of trade would hurt China as well. Many Japanese products are made in China; among the numerous factories **shut down** out of safety fears include Toyota, Nissan, Honda, Panasonic, and Mitsumi Electric (a major supplier of optical equipment to Nintendo). Should these be unable to resume production, hundreds of thousands of Chinese would lose their jobs. The newly unemployed are unlikely to put patriotism before their paychecks and, concentrated in company dormitories or other accommodations nearby, can easily mobilize to protest. This time, their target will not be Japan.

Admittedly, boycotts are devilishly difficult to enforce, especially on a long-term basis. The Chinese economy is no longer sealed as it was in Mao's era: Motivated consumers can, and do, find ways around it. After Beijing banned Norwegian salmon out of anger over the Nobel Peace Prize Committee's decision to award imprisoned dissident Liu Xiaobo, businesspeople imported salmon into Hong Kong, repackaged it, and sold it in major retail outlets throughout the country. A government ban on Japanese imports could be effective only if public anger were so intense that the overwhelming majority of Chinese consumers were willing to forgo purchases of Japanese products, which Chinese skeptics doubt. An anonymous cartoonist whose sketch was

quickly removed from the web, drew a crowd holding angry anti-Japanese signs in one hand while snapping pictures with their Japanese cameras and texting on Japanese cellphones in the other.

One of the biggest benefits to Japan of manufacturing in China is the ability to sell finished products to Chinese consumers domestically. If Japanese manufacturers cannot sell to the Chinese, there is little reason to keep their factories in China. Vietnam as well as several other ASEAN members are already **courting** Japanese manufacturers, offering attractive leases, well-educated employees, and modest wage scales. Things are bad, but economically, both China and Japan have other options.