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The China-Japan spring romance: thus far, how much farther?

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"I'll love you, dear, I'll love you / Till China and Africa meet / And the river jumps over the mountain......" So wrote the poet WH Auden [1]. China has certainly been going out of its way to meet Africa over recent months and hopefully that does not mean that the end is nigh for eternal love. Meanwhile, the Chinese premier Wen Jiabao [2] chose to seek a bit of love nearer home this April. And what better time than mid-April to be visiting Japan? The cherry-blossoms were out in full force to give Wen a glowingly [3] pink welcome. Yet near is as near goes, and pink is as pink does. Where we go and what we do hereafter will be the real test of the extent of mutual love between China and Japan.

Insofar as the economics of the bilateral relationship is concerned, mutual love has long been an almost foregone conclusion [4]. "Warm economics and cold politics" has been an overworked expression on both sides for quite a while. And warm economics it has indeed been: in a unique and unprecedented way.

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New China, old Japan

The bilateral economic relationship has been unique and unprecedented because it was a case of new China meets old Japan. The Chinese economy [9] started to take off in a truly big way as the world entered the 21st century. This meant that the nation was in need of what amounted to actually rather old economic goods to build up its infrastructure very quickly. Goods such as steel. Such as construction machinery. Such as ships that would carry these goods to Chinese shores in an efficient and reliable fashion. All of which Japan was able to supply very readily.

Thus, Japan's final ascent out of the clutches of spiralling deflation was made possible not by the softer and more high-tech end of the industrial spectrum as everyone had assumed. Help came from the older, heavier and emphatically non-soft manufacturers into whom the Chinese great economic take-off had breathed new life. All those industries which we had taken to calling the "smokestack" league and written off as basket-cases suddenly became the stars of economic growth in Japan once more. All because of new Chinese demand [10].

Really, it was supposed to be the other way round. According to traditional economic textbooks, anyway. As economies matured, they would move on to rely more and more on higher value added goods and services. Younger economies would duly take on the less sophisticated but more mass-producing industries. Thus the world would go forward in a nice and orderly fashion. However, the Sino-Japan case showed us that in this highly globalised world, the reverse could actually happen, that the more basic industries of the more mature economies could be given a new lease of life by the lifting-off into full orbit of the more basic and less mature economies.

This worked fine on both sides of the bilateral economic equation. China got what it needed to sustain its spectacular growth trend. Japan got what proved to be a godsend to get back into positive growth territory. However much the politics of the relationship jarred, the economics of mutual gain [11] would always be there to warm up the cooling temperature. Or at least to take people's minds off the political tensions, if not to make them disappear [12] altogether.

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America and Japan: a different dynamic

All this is in very interesting contrast to how the United States-Japan relationship [14] developed over the post-war years. For this was a relationship which was very much in keeping with traditional economic theory. The history of the US and Japan after 1945 [15] could be written in many ways, and one very colourful way in which the story could be told is through that of trade friction. First came textiles. Then came steel. Next in line was the car industry. By the time we entered the 1980s, it was very much the electronics industry that was at the forefront of the trade disputes between the two sides. One by one, Japan caught up with the US in the leading industrial sectors of the time. One by one, US industry was forced to concede pole position to the Japanese. All this obviously led to a lot of bad economic will [16] between the two countries. Economics tended increasingly to get in the way of the superbly close political alliance [16] that was otherwise being carefully orchestrated.

Thus while economics was the thorn in the side of friendly politics [17] in the US-Japan relationship, it has thus far been precisely the other way round in the Sino-Japan case. It has turned out this way because China of necessity has so far chosen the role of the great absorber of everything from oil to steel to mobile-phones. Post-war Japan, again of necessity, appeared on the world market from the beginning as the great producer. Great absorbers are always nice partners to have in economic relationships. They may bid up the price of things a bit, but that is really all to the good. By contrast, great suppliers spell new competition. That again is ultimately to the good, but meanwhile relationships tend to become rather prickly.

So there we are. The sheer absorption capacity of the huge Chinese economy has very much taken care of the love side of the love-hate equation between China and Japan up to now. The crucial question is whether it can remain that way *ad infinitum*. Both sides [18] seem very much to be pinning their hopes on that infinity. Yet that may be tempting fate. Ever closer economic ties do not necessarily guarantee ever greater goodwill. Economic proximity can be the source of new friction where none existed previously, as members of an enlarged European Union [18] are surely discovering. Moreover there are already signs that China is starting to feel more protective of some of its manufacturing sectors.

"I'll love you, dear, I'll love you / Till the economics turns sour" would be a rather sad ending to a tale of two nations that share so much in terms of cultural tradition. Politics should be prepared to play its role.

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