

US-Japan-China Relationship

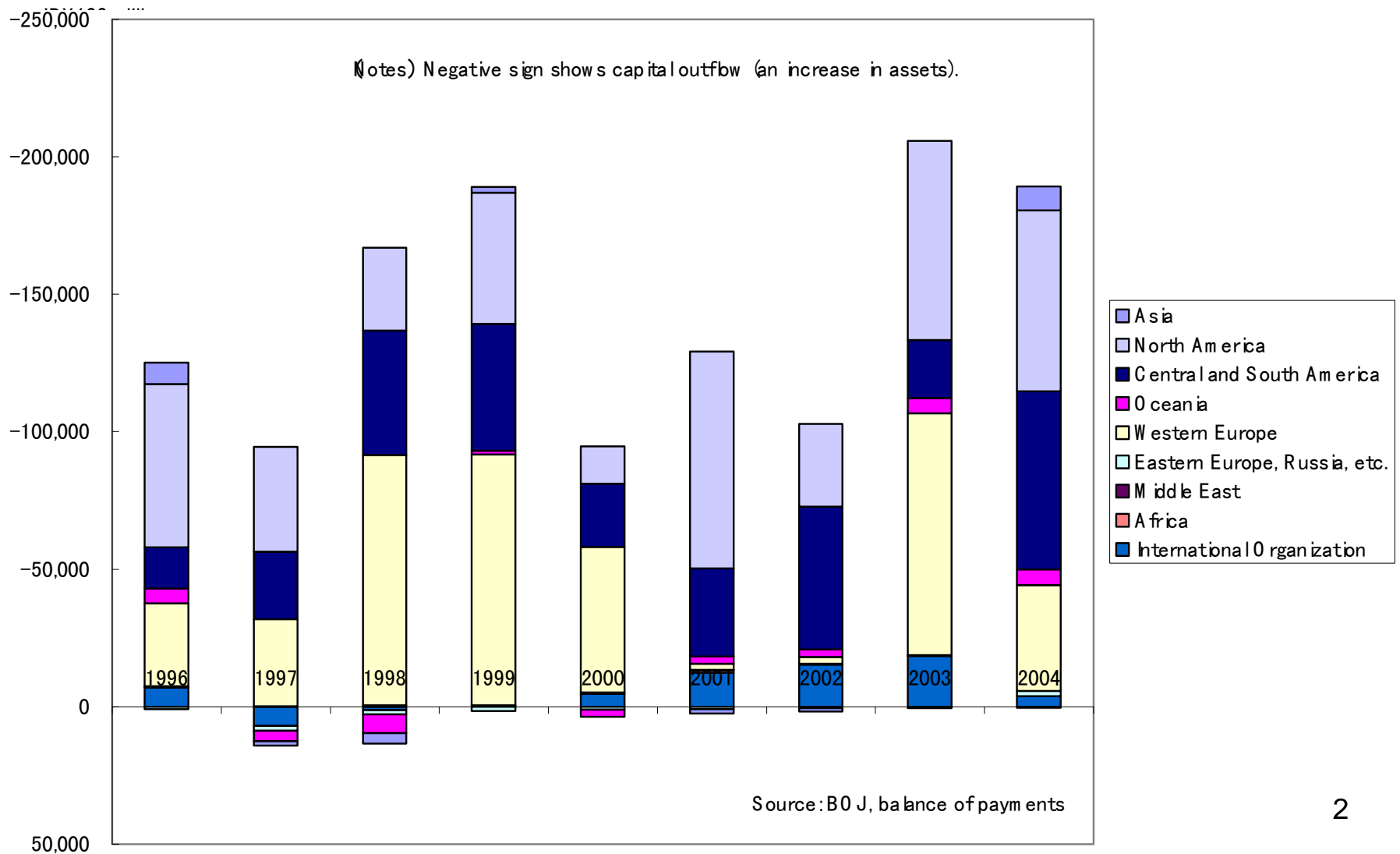
2007.12.05

Naoyuki Yoshino

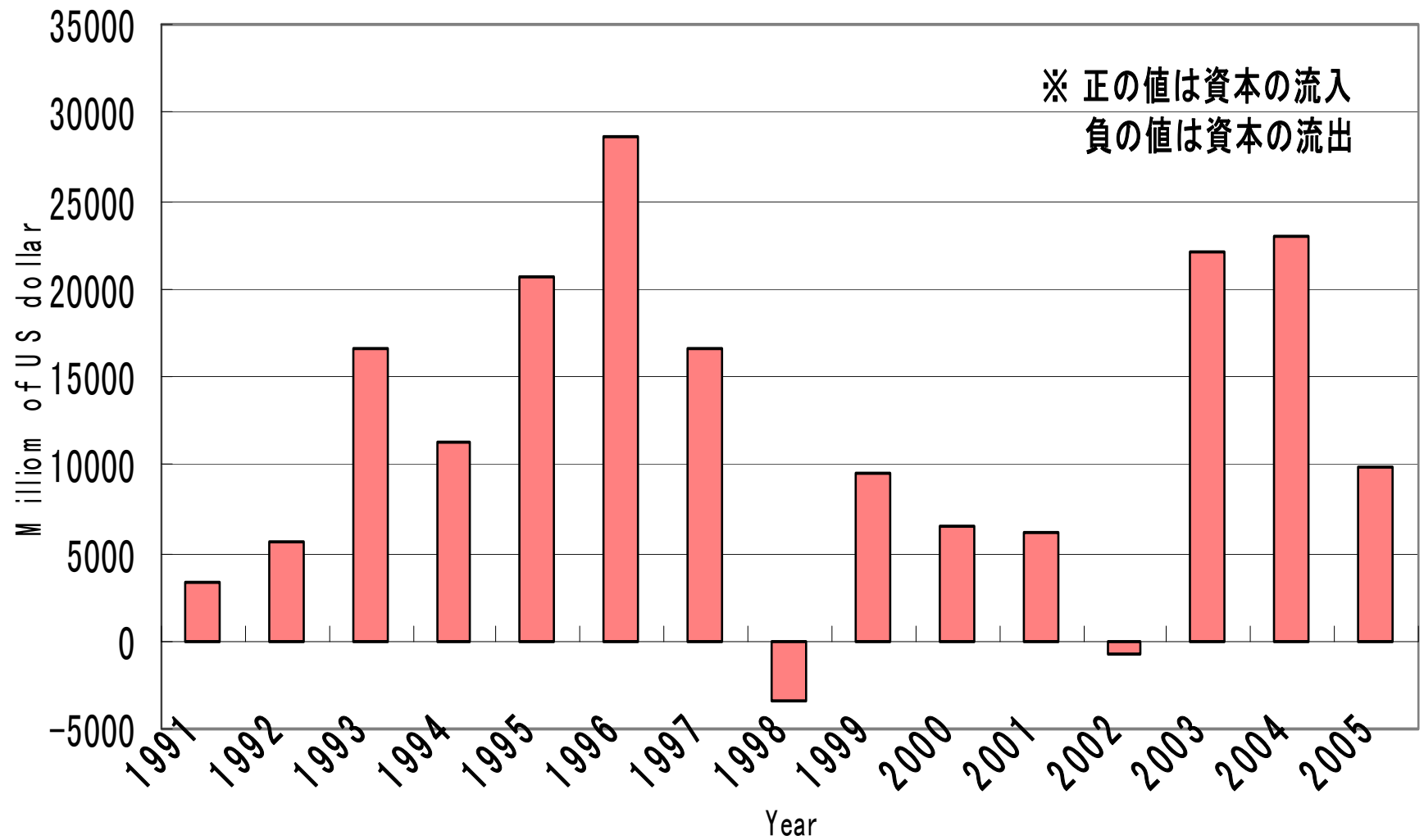
Professor of Economics, Keio University

yoshino@econ.keio.ac.jp

Figure 2, Portfolio Flows from Japan



ASEAN5 Portfolio Investment, 1991-2005 (Net Flow)



5, 2001 Survey of Japanese Companies by JETRO

<Impression about Chinese Companies>

20% Currently in Rivals

30% Will be Rivals in near future

20% Currently, Does not feel as Rivals

13% Will not think as Rivals in near future

13% No, answer

68% = Competing with Chinese products

31%=No competition with Chinese products⁴

Figure 4, Japan's FDI to China

---Appreciation of the Yen---

Correlations

1989-2004: -0.70504

Exclding.1999-2001: -0.84932

Japan's FDI to China

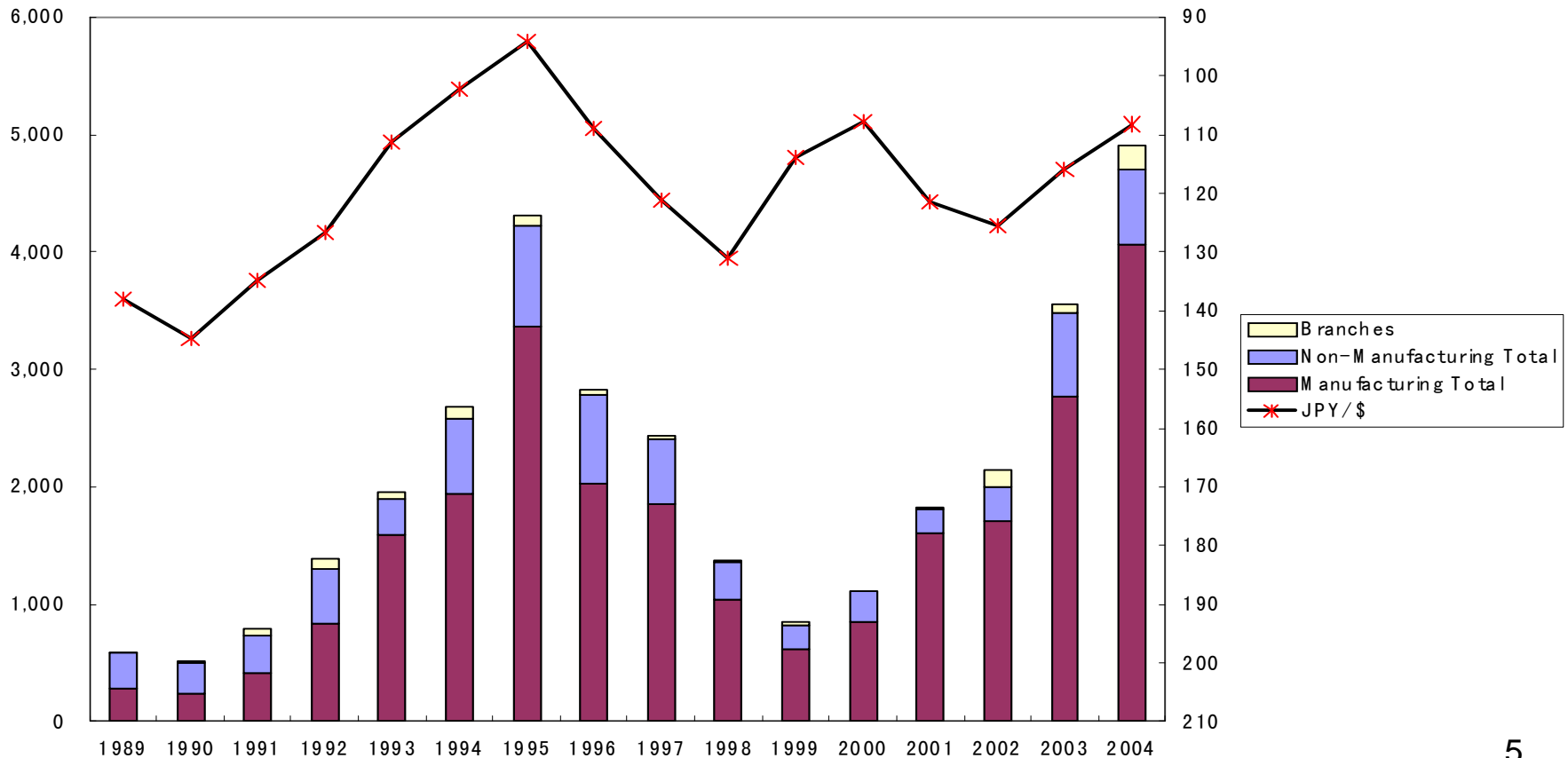
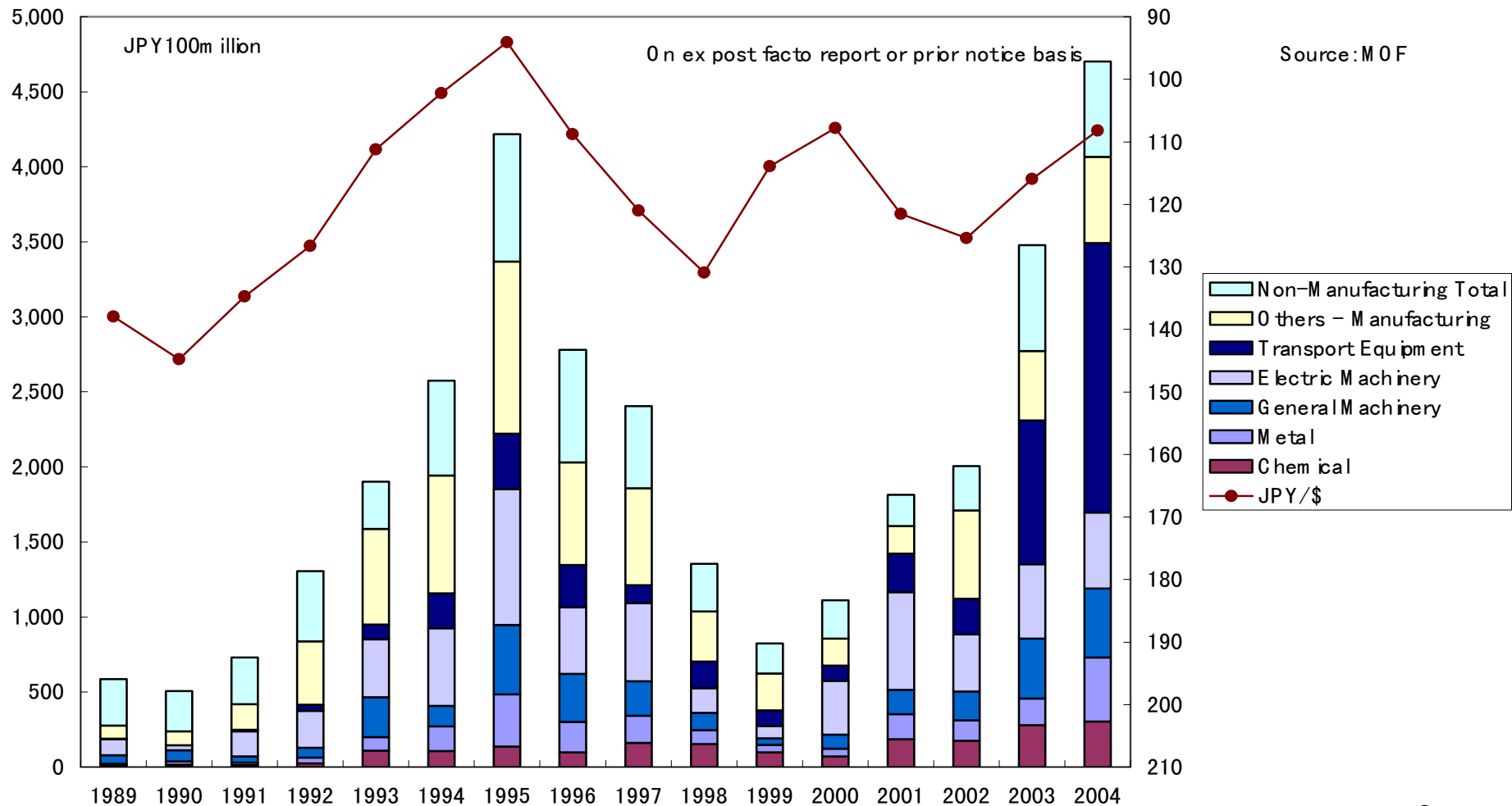


Figure 5, FDI Flows from Japan to China

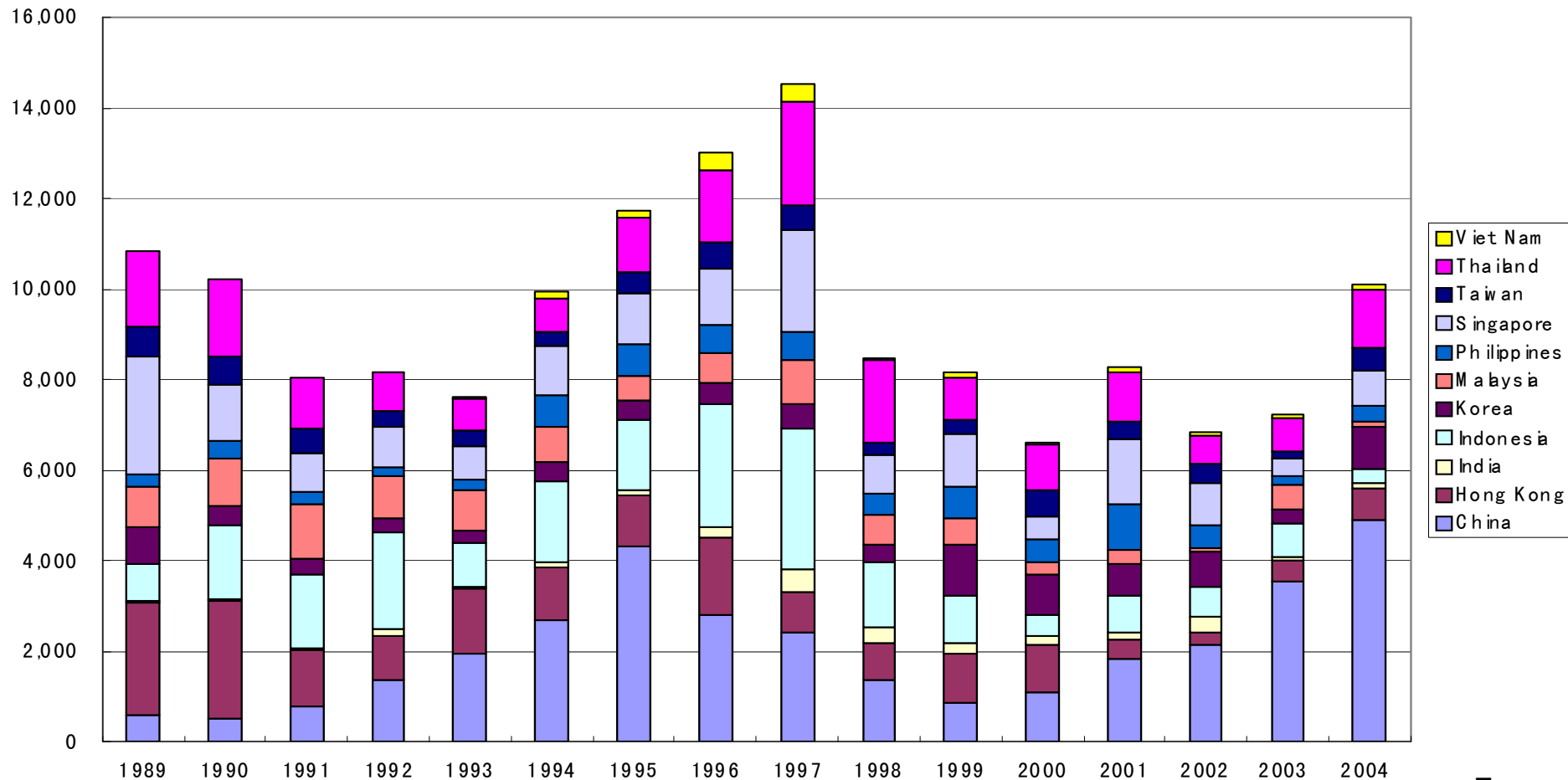
FDI from Japan to China by Industry



10, FDI from Japan to Asian Countries

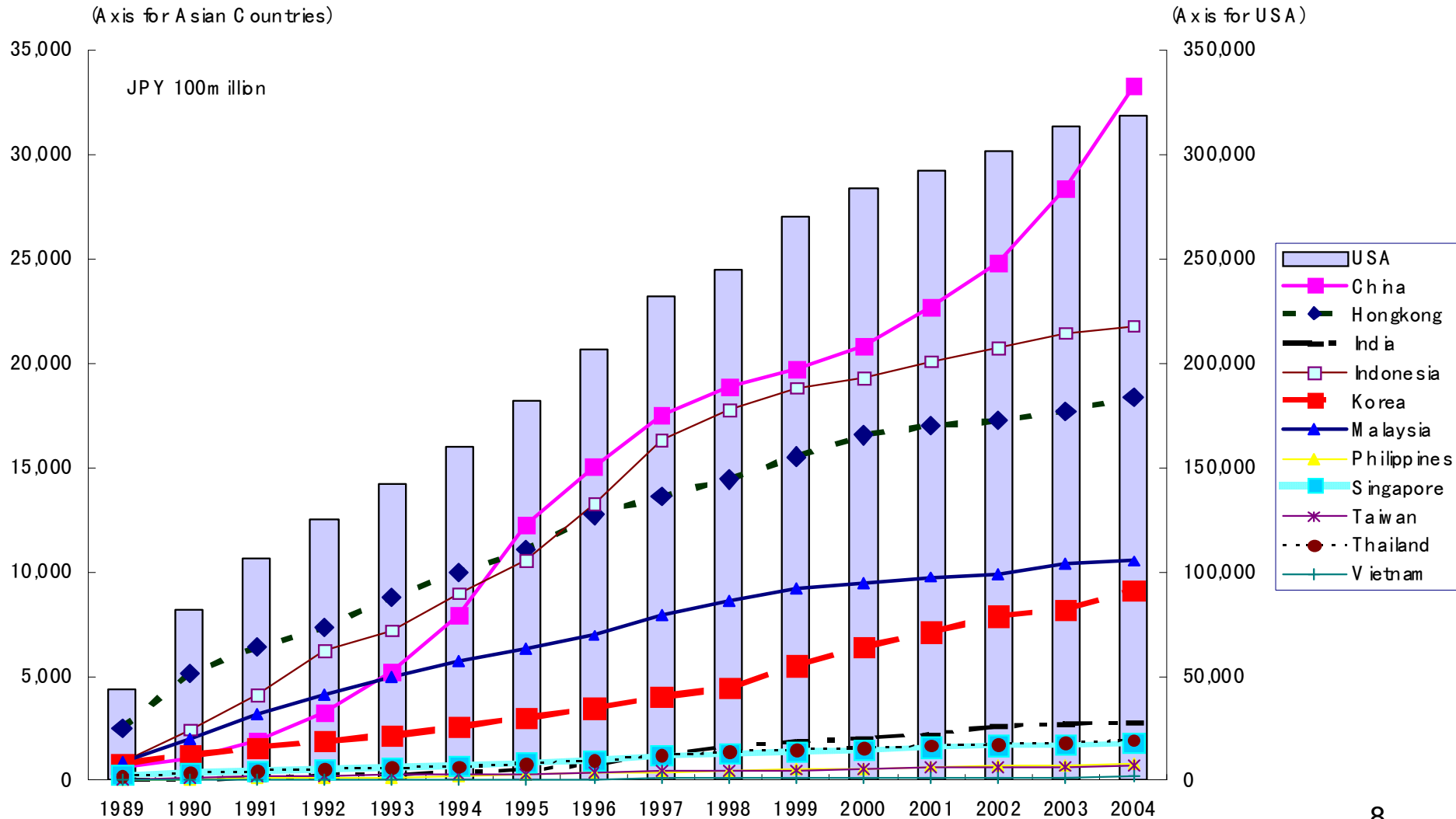
<Share of China is increasing>

Japan's FDI: Amounts by country (All industries)



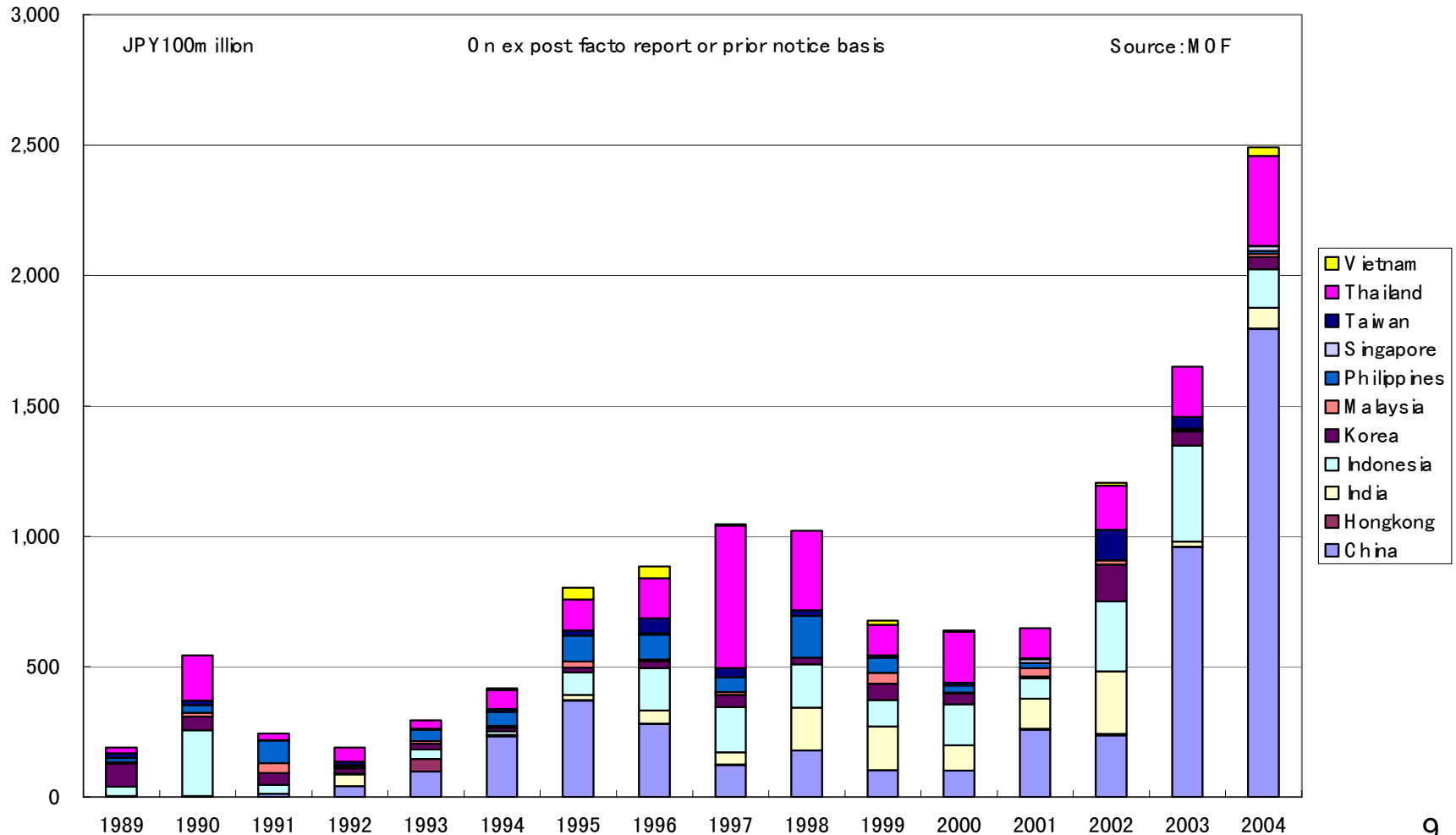
Accumulated FDI from Japan

Accumulation of FDI flows from Japan (1989-2004)



13, Japan's FDI (Automobile, in Asia)

From Indonesia to China, Thailand



14, FDI Induced Economic Growth

1, 1990-2000 (China)

R²=0.265

Real Growth Rate = 0.864x(FDI/Y)+6.103

(1.80)

(2.89)

(Cabinet Office of Japan)

2, 1980s-2000 (Asian Region)

R²=0.063

Real Growth Rate = 0.259x(FDI/Y)+6.618

(3.46)

(21.17)

**China, Korea, Singapore, Thailand,
Indonesia, Philippines**

(Cabinet Office of Japan)

15, Good Economic Conditions to invite FDI into China from Japan

1, Since 1979, China invited FDI

2, 1992, Den Xiao Ping, Economic Reform

3, Low Labor Cost

1990s Wage Rate 1/30(Japan) 1/14 (Korea)

1990s continuous inflow from Rural region

Increase in Labor (72.4% urban, 25.8% rural)

4, Production Network (assemble in China)

5, Expectation of Large Consumption Demand

16, Export from China relies on Foreign Companies in China

1, China's Export (762.1 billion \$)

467.3 billion \$ (60%) (by Foreign Companies)

2, High Tech Export from China (350.0 billion)

→ Share of Foreign Companies is high

3, Trade Surplus of China (84.6 billion \$)

→ 83% comes from Foreign Companies

**4, Trade conflicts between US and Japan
has diminished by Production Network in Asia**

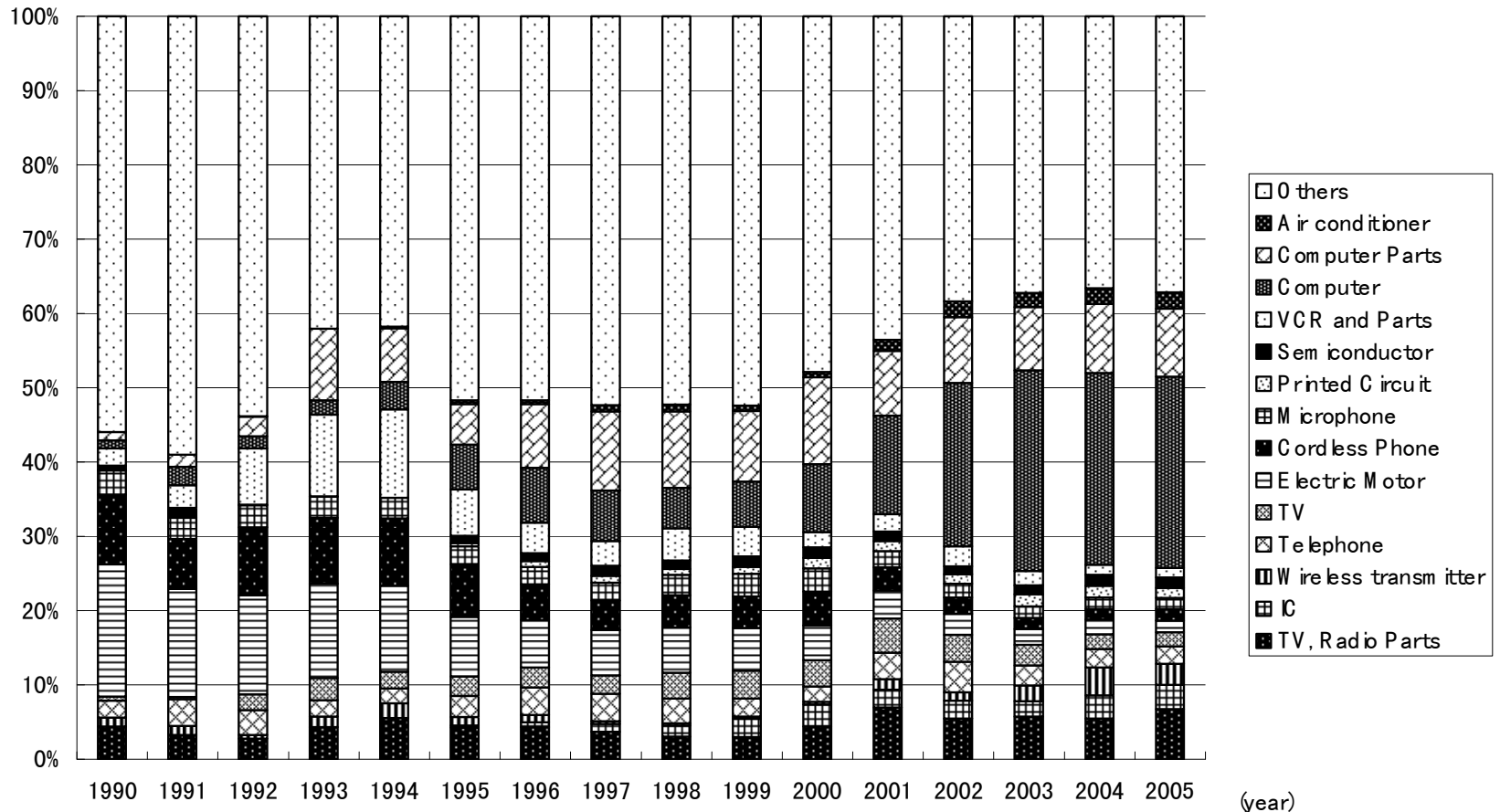
17, Survey by JETRO to Japanese Companies in China (2001)

<Reasons why production is shifted to China>

- | | |
|--|------------|
| 1, Expectation of Free Market (WTO etc) | 18% |
| 2, Parent Company shifted its Production from Japan to China | 20% |
| 3, China's Improvement of skilled labors and quality of materials | 21% |
| 4, China's future expected growth | 28% |
| 5, Production costs in Japan went too high | 78% |

18, Japan's Imports from China

Increased share of computer
early 1990s: Basic Electronic Machinery

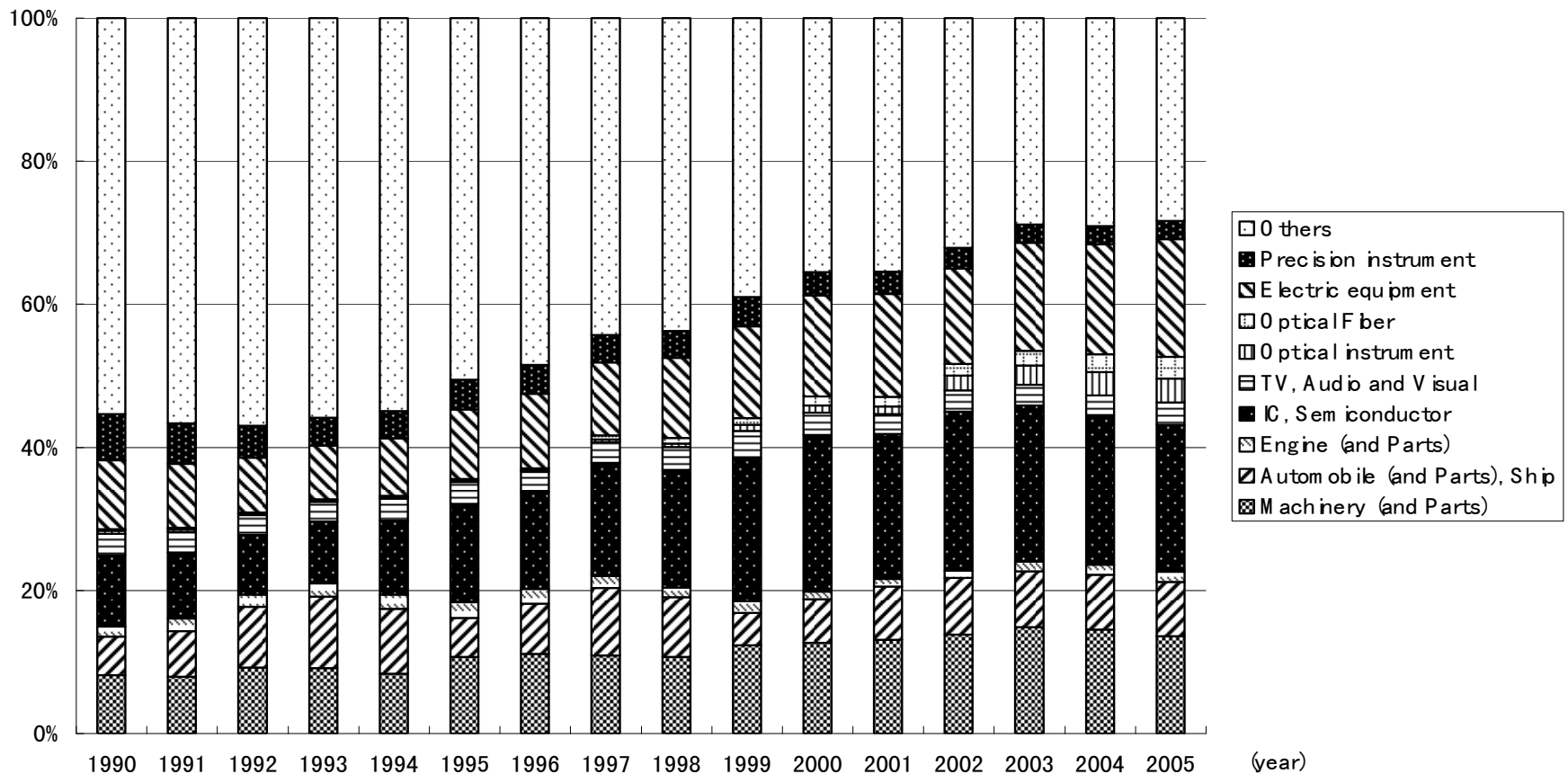


19, Changes in Import from China

- 1, High ratio of natural resources in late 1980s
:mainly coal**
- 2, Electric Machinery and General Machinery
are increasing
(40% of total import from China in 2005)**
- 3, Production Network with Japanese
Companies (ex. computer parts)**

20, Exports from Japan to China

Electronic machinery, Semiconductor, and General machinery are increasing

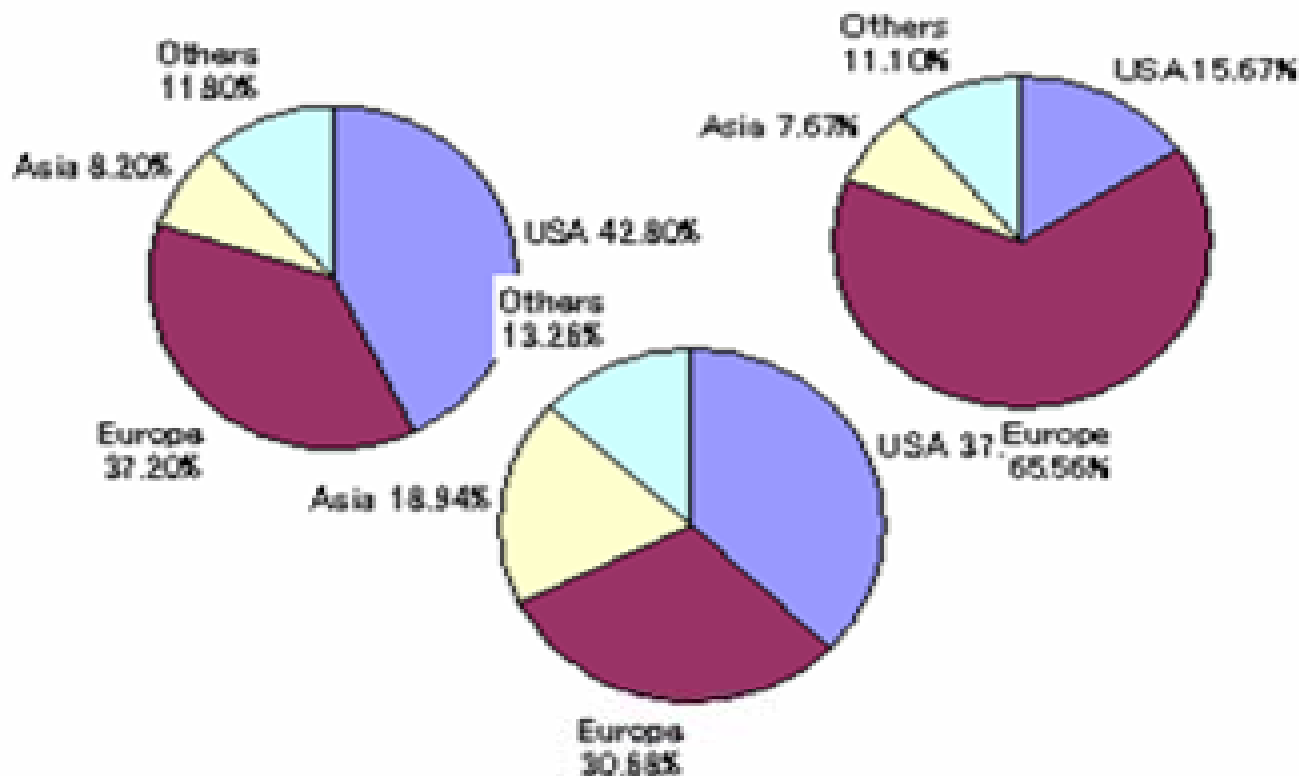


21, FDI and Trade Relations

- 1, FDI and Trade patterns
 - were not driven by policies
- 2, Industrial needs, Production Network
- 3, How to enhance Portfolio Investment across Asian Countries
- 4, Development of Financial Instruments
 - 1, Government bonds
 - 2, Mortgage bonds
 - 3, Infrastructure (Revenue) bonds
 - 4, Securitized SME bonds

Direction of Portfolio Investment

Figure 1, From Asia, Figure 2, To Asia, Figure 3, Europe

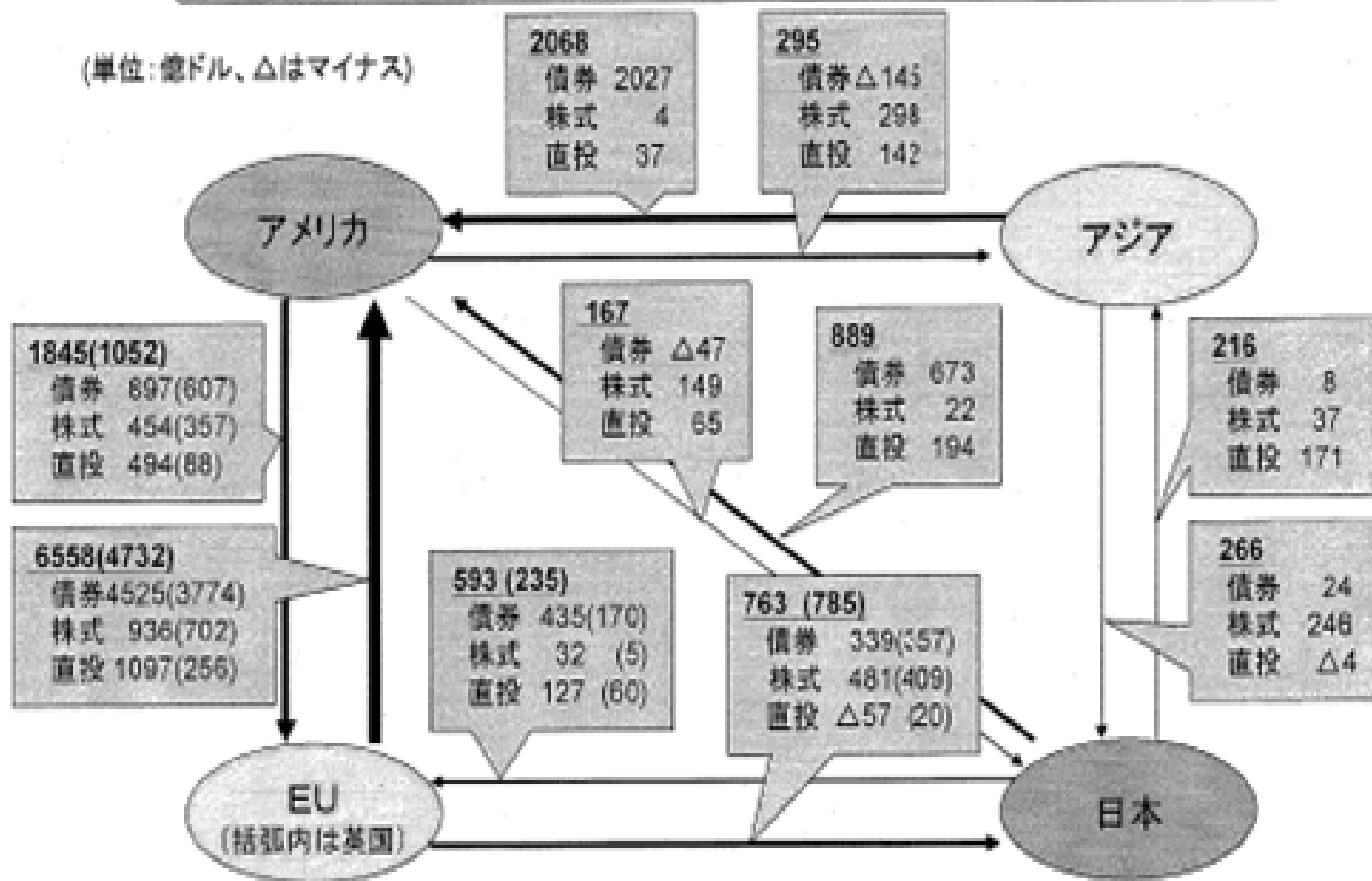


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国際的な資金循環(日米欧アジアの投資の動き-2005.10~2006.9-)

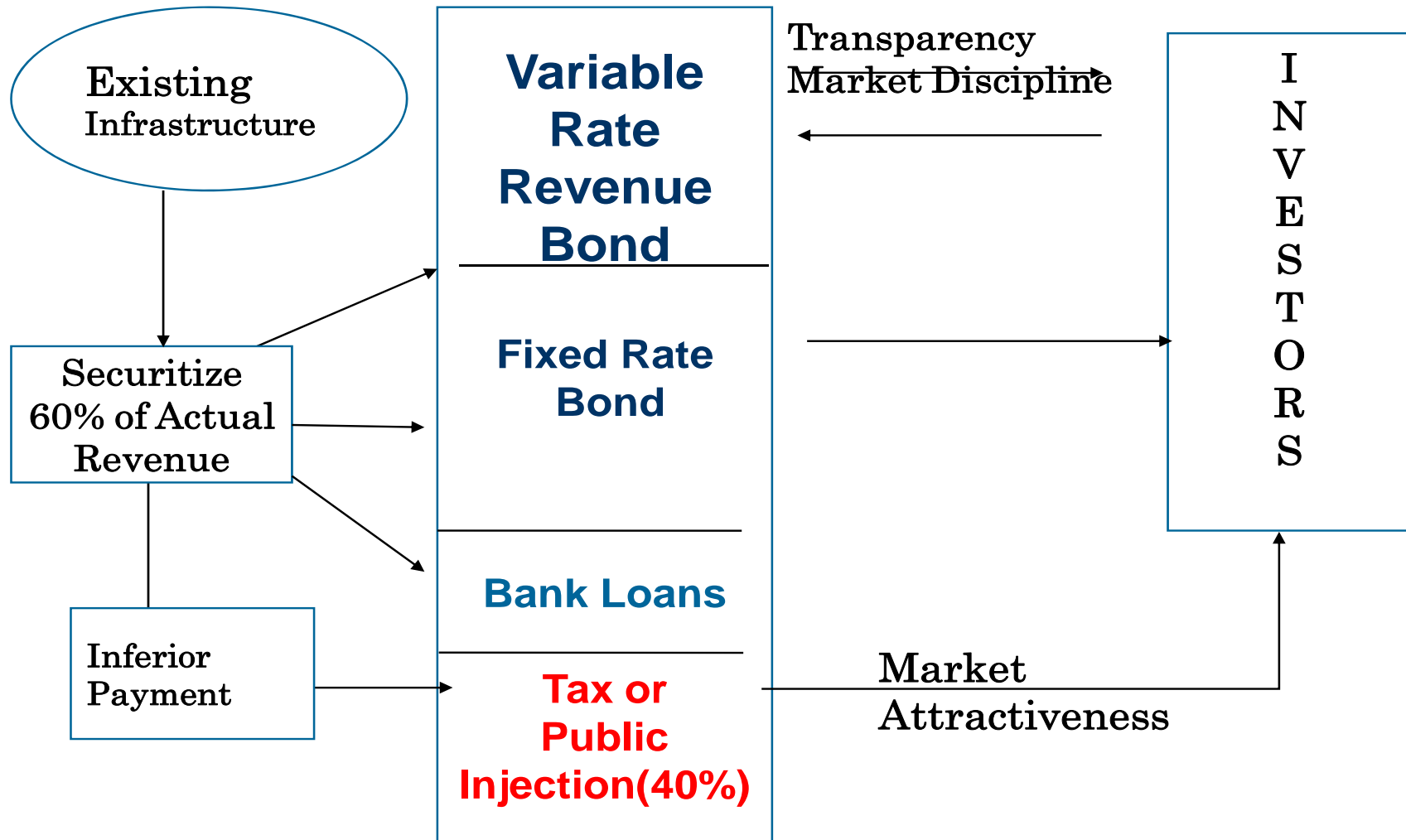
(単位: 億ドル、△はマイナス)



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Revenue Bond for Infrastructure



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ABMI (Asian Bond Market Initiative)

Steps so far

1, Government Bond Market

2, Semi-Government Bond (Power plant)

3, Large Companies

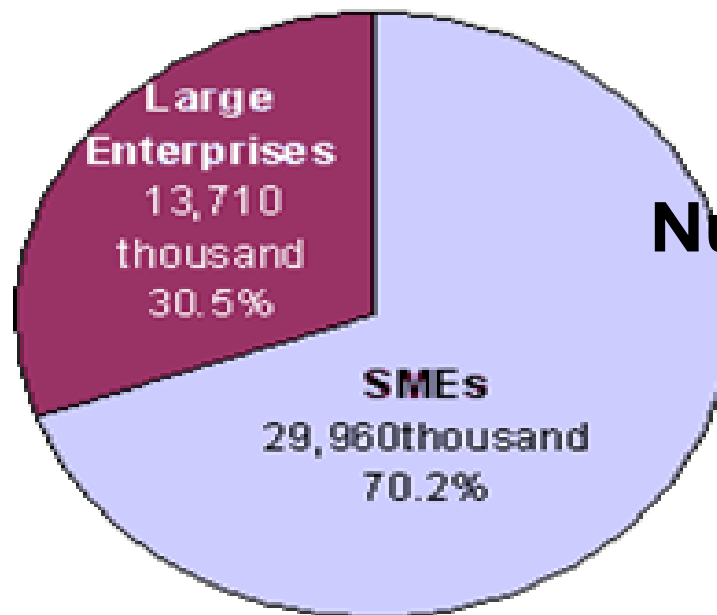
4, Infrastructure Financing (Revenue Bond)

5, Housing Loan, Securitization

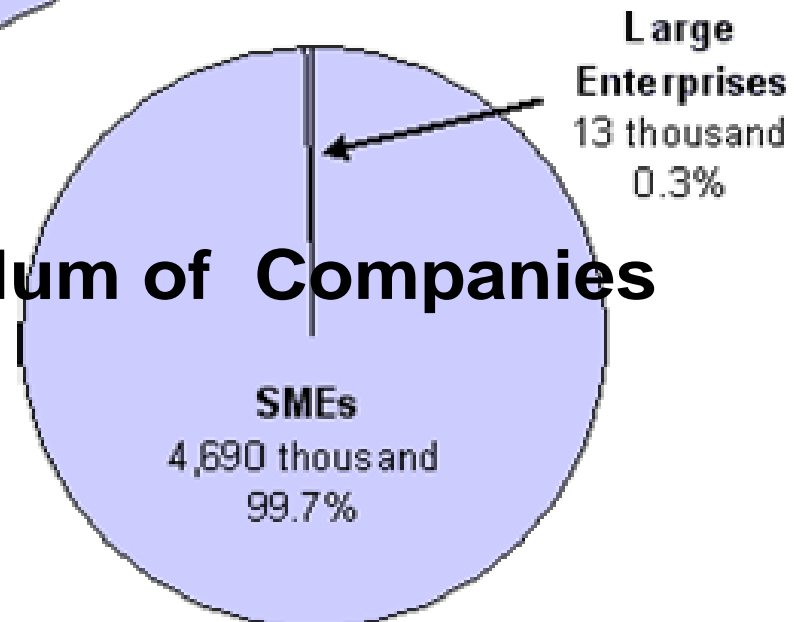
→ Small Businesses are neglected

→ Credit Data is difficult to obtain

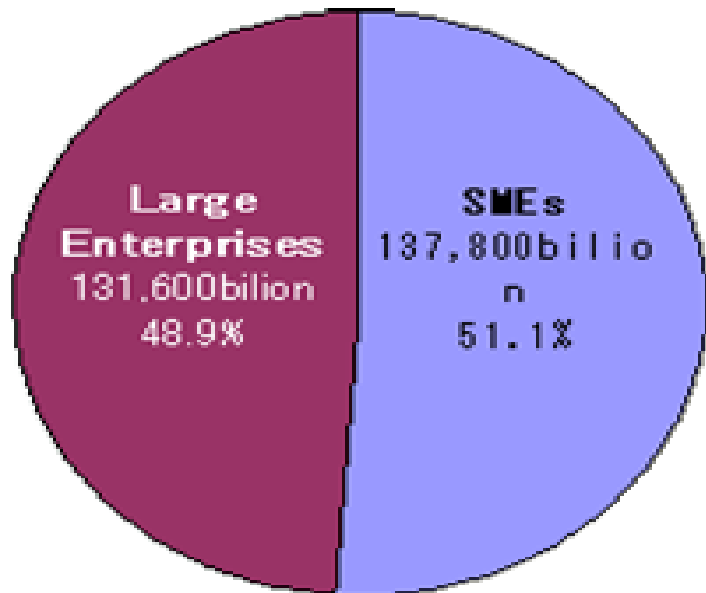
Num of Employee



Num of Companies



Sales



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yoshino@econ.keio.ac.jp

Collection of Credit Data of SMEs

