

# Economic Ties Binding Japan to Rival China



Charles Pertwee for The New York Times

Copies of ancient terra-cotta Chinese warriors were reflected recently in a bank window in the Chinatown section of Kobe, Japan.

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Published: October 31, 2005

SHANGHAI, Oct. 26 - At a call center in Dalian, in northeast [China](#), young workers speaking flawless Japanese answer customer service calls for a Japanese insurance company. In western [Japan](#), a new commercial Chinatown is rising in Kobe City's rebuilt port area.

Rather than the gaudy restaurants of the old Chinatown, the new one contains nondescript office buildings leased to Chinese companies focusing on everything from biotechnology to that most traditional form of Japanese attire, the kimono.

At a time of rising political tensions, heightened by a growing nationalism, China and Japan are more intertwined economically than they have ever been. In their breadth and intensity, the ties have begun to surpass those between the [United States](#) and Japan, whose economic relationship has often been called the most important in the world.

The ties offer a counterpoint to rapidly deteriorating diplomatic relations, which reached another low point on Oct. 17 when Prime Minister [Junichiro Koizumi](#) of Japan visited the Yasukuni Shrine, the nationalist memorial to Japan's war dead, and China immediately called off high-level talks.

Tensions will probably keep rising with Asia's transformation: China, which had lost its historical role as the region's economic and political leader to Japan in the last century and a half, is hungry to reclaim it.

"In the last few years, things have grown black and white between us," said Toshio Hori, general manager of the Tokyo-Mitsubishi Bank branch in Shanghai, China's biggest city and an increasingly vital commercial artery to Japan. "On the political and diplomatic side, things are pessimistic, but on the economic side, the relationship is growing stronger and stronger."

The possibility that ill will could lead to conflict is lessened by the reality that both countries would have a lot to lose:

¶ Sharply increased trade with China has lifted the Japanese economy out of a lost decade of feeble growth and recurring recession, while cheap imports from China have driven costs down significantly for Japan's long-suffering consumers.

¶ More than 150,000 Chinese students attend Japanese universities and language schools, and a million Chinese people work in Japanese companies.

¶ Shanghai, officially home to 20,000 Japanese, may actually house as many as 100,000, which would make it the largest overseas Japanese community.

¶ Japanese investment totaling \$31.5 billion is enabling China to learn the formidable industrial skills of its neighbor.

China's ascension has been so fast that Japan must now contemplate a true rivalry, with the Chinese economy not only outstripping Japan's in size, but perhaps matching it in sophistication before long.

The uncertain new relationship between the countries, one rich in promise and in lingering suspicions, is on full view today in this city.

Sixty-three years after Japanese troops stormed ashore, Shanghai is dotted with neighborhoods of Japanese residents. Japanese-language magazines cater to the wealthy Asian expatriates with everything from restaurant reviews to sex club listings, and the membership directory of the Japanese chamber of commerce reads like a who's who of the Japanese corporate world.

The comfortable veneer of life overseas was suddenly stripped away in April, however, when a large protest march against visits by Mr. Koizumi to the Yasukuni Shrine, which honors Japanese forces responsible for atrocities throughout Asia, degenerated into a riot. Crowds pelted the Japanese Consulate with stones.

Mr. Koizumi's landslide victory in the general elections in September suggests that the official relationship between China and Japan will remain rocky. However, a breakthrough could occur after Mr. Koizumi retires next year.

Mr. Hori of Tokyo-Mitsubishi Bank, who is also chairman of the Japanese chamber of commerce in Shanghai, said his worst fear was another protest, perhaps even nationwide. Still, he added, "it is meaningless to think Japanese companies would withdraw and go somewhere else, like [Vietnam](#)."

"The relationship is too big for that already," he said.

Among students at the Dalian University of Technology, many of whom will be vying for jobs at Japanese companies, there is a strong sense of pragmatism. "History problems are history problems, but I think you have to be realistic," said Zhang Shuai, a 22-year-old engineering student.

Here and there, the same kind of pragmatism can be found in Japan, in sharp contrast to the anxious, sometimes hysterical public discussion of a rising China. Like the rest of the heavily industrialized Kansai region of Japan, Kobe, the port city that was devastated by an earthquake 10 years ago, has been economically depressed for years.

Sensing opportunity in China's rise, the city government has invested heavily in attracting Chinese businesses and promoting trade with China, especially the Shanghai region

One businessman, Chen Jianjun, 43, is the founder of a biotechnology consulting firm, Shanghai Rundo Biotech Japan, in Kobe. After completing a graduate degree in Japan, Mr. Chen worked at Nestlé before going out on his own. Now he advises Japanese pharmaceutical companies on conducting clinical trials and marketing in China, giving him a broad perspective on the countries' problems. "China and Japan are close to each other but have a distant relationship," he said. "Each does not understand the other well."

That plaint is echoed by businesspeople from each country, pragmatists who basically want to make money. In Japan, business tends to support Mr. Koizumi for leading domestic economic change, but cringes at his government's antagonistic policy toward China. Businesspeople fear that after Mr. Koizumi retires next year, an even more nationalistic leader may replace him.

The gap in understanding extends to schools and universities. Even though more Chinese students are choosing Japanese universities over American ones, they are often surprised that their Asian neighbors are in many ways more foreign than the Americans.

"I think Chinese people understand American people better," said Gao Ruihong, 35, a Chinese student at Kobe University. "People hold parties at home and invite their friends and neighbors in China or the United States. I came to Japan nine years ago, but I have seldom been invited to friends' homes."

But like most of her classmates, Ms. Gao was optimistic. "The relationship between Japan and China will become closer in the future," she said, "and I'd like to act as a bridge between the two countries."

For many in Shanghai's large Japanese community, the best way to build a better future between the countries appears to be in taking advantage of huge opportunities for prosperity today.

"We don't know what will happen to this market in the future, but we know that our development will depend on what happens here to a large extent," said Satoshi Tachikake, director of operations for Mazda in Shanghai. Japanese car companies arrived late in China compared with their European and American rivals, but today no one is investing more heavily in China than Japan.

Shanghai's official Japanese school has 2,214 students, a tenfold increase from a decade ago, and is expanding faster than ever. "We have zero space now," said the principal of the school, Kazuyuki Taichi, smiling as he displayed the model of a new school that is near completion.

Mr. Taichi, who came to Shanghai just before the April protests, expressed surprise at what he found on arriving in China. "I expected to see another transition from Communism," he said, not a booming city as big as Tokyo. "It's difficult to make Japanese, even your own brothers and sisters, understand that Japan's development depends on China and China's development depends on Japan. They are under the influence of the media back home, which is always blasting away at China."

Eriko Yamamoto, 26, believes that Japan can reinvigorate itself by building closer ties to China. After quitting her full-time job with Hitachi in Tokyo, she came to Shanghai recently to study at the China Europe International Business School.

"Initially I thought I should go to China and try things out, and if things didn't work here I could always go home," Ms. Yamamoto said. "But here I discovered if you have a bit of money you can do just about anything. In Japan, you don't have that feeling. There is a sense of so many rules."