

The Interdependence and Future of the Chinese and Japanese Economies

On February 24, 2011, Masahiko Aoki, Henri and Tomoye Takahashi Professor Emeritus of Japanese Studies in the Economics Department and Senior Fellow at the Stanford Institute of Economic Policy Research (SIEPR) at Stanford University, gave a lecture on the historical and contemporary economic, demographic, and institutional inter-linkages between China, Japan, and Korea.

Professor Aoki began his talk acknowledging China as the second largest economy in the world, as measured in nominal GDP. While this development received ample media attention, Aoki noted that according to some estimates, China's GDP in 1820, 1950, and 2003 (in 1990 International Dollars, similar to PPP), surpassed that of Japan. In 1820, in fact, China's GDP accounted for 32.9% of the world's economy. However, China's vast population size cannot be ignored, as its 2003 per capita GDP was \$4,803 compared to Japan's \$21,218. Observing the age composition, Aoki found that China, Japan, and Korea all have increasingly ageing populations, with Korea reaching its peak population in the next five years.

Given his studies, Aoki has identified four phases of economic development that these East Asian economies have undergone, are undergoing, or will undergo. In Phase 0, a country maintains a dominant peasant economy. During Phase 1, industrialization through taxation on agricultural surplus begins. By Phase 2, high growth, some migration out of agriculture, and increasing industrial labor inputs appear. Phase 3 is characterized by steady per capita income growth. Lastly, in Phase 4, a country's population begins to mature with increased aging and low fertility rates.

Turning his attention to institutional evolution, Aoki observed that family-managed peasant farming dominated the economies of Japan, Korea, and China before industrialization occurred. Despite this similarity and in light of political events, Japan and China developed distinctly different institutions regarding taxation enforcement, property rights, and lease-contracts. The social networks in China lent themselves to a constitutive and selective nature, which characterizes the *guanxi* behavior that is heavily practiced by China today. Social networks in Japan, on the other hand, were categorical in nature, and emphasis was placed on being part of and maintaining one's hierarchical position in a village.

Aoki asserted that China is currently transitioning to Phase 3, with the introduction of some rights in subcontracting, leasing, and sales. Yet, these rights remain largely insecure. Meanwhile Japan is transitioning into Phase 4 as it deals with social issues (generational, gender, ethnic,

and immigration) which call for substantive reform of its “bureaucracy-mediated bargain state” composed of a main bank system, lifetime employment and correlating political state.

Aoki linked his findings to the original ‘Flying Geese Paradigm,’ which focused on the pattern of technological development between East Asian economies from the 1930s to 1960s. However, his findings found not just complementary technological development but also patterns of demographic, economic, and institutional dynamics between China, Japan, and Korea which he characterized as “Flying Geese Paradigm Version 2.0.” He asserted that, like the ‘V-shape’ which geese form in flight, the ability of each economy to respond strategically to its own developmental agenda can be enhanced by the ability of other nations in different phases. For instance, he offered the provocative suggestion that the Chinese and Japanese economies may enjoy strategic complementarities in the future, based on China's status as a Phase 3 country and Japan's position in Phase 4. He left it to the audience's imagination to consider what form such complementarities may take.

This event was moderated by Curtis J. Milhaupt, Parker Professor of Comparative Corporate Law, Fuyo Professor of Japanese Law, Director of the Center for Japanese Legal Studies (CJLS) and Vice Dean of the Columbia Law School (CLS). It was co-sponsored by CJLS and CLS.

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