

Japan firms join the US' trade war with China

Written by Lin Shiou-jeng 林錫榮

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As the trade war between the US and China continues, the negative consequences are beginning to pile up.

Big Japanese businesses are gradually beginning to pull out of China and media have been asking if the “Made in China 2025” dream is broken. It seems the trade war is slowly expanding and developing into an economic war between developed countries and China. The reasons for this are as follows.

Big Japanese businesses have always been known for their rigorous approach and for planning for the long term. Just as they are very careful when making an investment, they will also be very careful when they withdraw an investment.

When Toyota was planning to build a large car manufacturing plant in Taiwan, it conducted several inspections and brought representatives from its satellite plants, which demonstrates how seriously it takes its overseas investments.

Now it is planning to withdraw its investments from China, because it has a pessimistic view of China's long-term development and political and economic changes, which makes the firm willing to abandon the results, despite the many years it has operated there.

Faced with trade pressure, the Chinese government will of course try to make these businesses stay by offering them access to its domestic market. This was expected, but even that is not enough to make them stay, a certain sign of the firms' negative view of China's political stability.

Second, big business investments do not only bring capital and distribution channels, they also mean that workers and partners learn more advanced technology. As this technology spreads, partners profit and indirectly promote the appearance of imitators, as well as smaller manufacturers, in the country, thus creating an industrial cluster.

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As big businesses begin to develop new products, they pass on the new technology required to produce these products to their partners, which sets off a new round of technological diffusion that benefits the cluster and the whole industrial supply chain.

When big businesses withdraw their investments, not only does that mean that capital will flow out and factories will close, it also means that distribution channels and technological advances would disappear with it.

If the industrial cluster does not possess the required research and development and technological skills, it will stagnate or perhaps even have to close down.

Chinese culture is hostile to competition and stresses harmony, which is not beneficial to technological growth and industrial upgrading.

Third, of all the developed countries, Japan is the most familiar with Chinese culture and markets.

European and US businesses are quite unfamiliar with China and will follow Japan's lead, basing their decisions on what Japan does; so when Japanese companies pull out of China, they set an example for European and US companies, which will also follow suit.

In short, the trade war between the US and China is developing into a confrontation between European countries, the US and Japan on the one hand and China on the other.

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