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China in Transition

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Downtown Shanghai, 2002.
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Editorial Notes*Personal Names*

All personal names are given in
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unless otherwise requested.
Hence in Japanese names, the
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Koizumi Jun'ichiro, and in
Western names the family
name is given second, e.g. Bart
Simpson.

Romanization

Due to software limitations
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In this edition of *Social Science Japan* we turn our gaze across the China Sea to consider developments in the People's Republic and what they might portend for Japan. China's rise as a regional power and the concomitant increase in its political and economic influence are being received with mixed feelings in Japan. 2002 marks the 30th anniversary of the normalisation of diplomatic relations with China, and over the course of those 30 years, engagement with China has given rise to an increasing degree of interdependence. Furthermore, bilateral relations in recent years have acquired a certain resigned pragmatism concerning controversial historical issues that had previously engendered diplomatic bickering. There is, on the other hand, a growing perception among many Japanese of China as a threat to Japan's, in particular economic, security. The articles in this edition examine a number of topics pertinent to bilateral relations and China's place in the international system. They variously indicate areas of positive change and highlight issues that call for continued caution. While predictions on China's future course are always something of a stab in the dark, it is possible that increased participation in the international system, the demands of economic development, and coming changes in the Communist Party leadership will contribute to the development of a secure and prosperous regional environment, one that can weather the disturbing swells of nationalism and intransigence that have hitherto periodically clouded the political horizon.

Contents

China in Transition

| | |
|---|------|
| Zhu Jianrong <i>New Trends in Chinese Diplomacy and the Outlook following the 16th Party Conference</i> | p.3 |
| Marukawa Tomoo <i>Towards a Strategic Realignment of Production Networks: Japanese Electronics Multinationals in Asia and China</i> | p.6 |
| Gregory W. Noble <i>Japanese Auto Production Networks in China: Too Little, Too Late?</i> | p.10 |
| Tanaka Nobuyuki <i>WTO Membership and the Fate of Chinese Law</i> | p.17 |
| Tajima Toshio <i>Agricultural Structural Adjustment in China and Japan</i> | p.20 |
| Namiki Yori-hisa <i>Japan and China: History and Textbooks</i> | p.25 |
| Special Report | |
| Zheng Lizhi <i>The Late Professor Hashimoto Juro and Japanese Studies at Fudan University</i> ... | p.33 |

Erratum

In the previous issue, the family name of Professor Uzaki Masahiro of Seikei University was incorrectly spelt as Usaki (page 9, note 1). We apologise for the error and for any inconvenience it may have caused.

New Trends in Chinese Diplomacy and the Outlook following the 16th Party Conference

Zhu Jianrong

Notable changes are taking place in Chinese diplomacy. This is evidenced not merely by China's participation in the international effort against terrorism, but is further revealed in the way that China has adopted a stance of tacit acceptance regarding the U.S. military action in Afghanistan, the stationing of U.S. troops in Central Asia thereafter, and the dispatch of Japanese Maritime Self-Defense Force vessels to the Indian Ocean in support of the U.S. military. At the U.S.-China summit meeting held during the Asia-Pacific Economic Cooperation (APEC) forum meeting in Shanghai in October, 2001, moreover, President Jiang Zemin stated to President Bush that China would not oppose the presence of the U.S. military in Asia. Such behaviour would have been unthinkable in Chinese diplomacy even a few years ago.

Neither have the Japanese and American diplomats involved in Chinese affairs that I have met hidden their confusion. However, while there are those inclined to interpret the changes chiefly as temporary tactical shifts in the wake of the "9-11" incident, it would seem that if one looks back over the last two years, there have already been various prior indications of policy adjustment.

As concerns Japan, Zhu Rongji's declaration on a televised talk show while visiting Japan in the autumn of 2000 that "while historical issues do remain, these are principally for the Japanese nation to resolve for itself" suggested a shift to a new policy of not involving historical issues in China's diplomacy towards Japan. In actual fact, this proved to be a turning point since which the weight given to historical issues in bilateral relations has significantly declined. During 2001, issues of bilateral controversy, such as the textbook incident, the imposition of safeguards on agricultural imports, Lee Tenghui's visit to Japan, and Prime Minister Koizumi's visit to the Yasukuni shrine, arose one after the other with a frequency unseen in recent years. Nevertheless, with the Chinese side noticeably willing to compromise, the incidents have been handled without ultimately seriously damaging bilateral relations. The Ministry of Foreign Affairs in Beijing has also made clear its intention to co-operate with Japan's exploration and salvage of the "unidentified vessel" that sank within China's Exclusive Maritime Zone (EMZ) in April this year.

With respect to Southeast Asia, China's autumn 2001 proposal for a conference to be held within ten years with the purpose of establishing a Free Trade Area has been met with approval. In relations with Vietnam, a treaty regarding the definition of the land border was signed on New Year's Eve, 1999 and, towards the end of 2000, agreement was reached on the demarcation of the EMZ in the disputed Gulf of Tonkin. Concerning the former, it has since become clear that the Laoshan and Fakashan regions, which the two countries had hotly contested and even fought over prior to the late 1980s and which China had since



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controlled, would be handed over to Vietnam.

In Central Asia, June 2001 saw the founding of the Shanghai Co-operation Organisation (SCO), composed of six member states including Russia, established with a view to promoting comprehensive co-operation on political, economic and security issues as well as in the fight against terrorism. While it has been surmised that the SCO's influence will be limited in view of rapid rapprochement between the U.S. and Russia in recent years, relations between China and Central Asian states have meanwhile been growing increasingly co-operative. Moreover, this August, Russia and China carried out joint military training exercises for the first time in nearly 40 years. In May this year, China and Tajikistan concluded a supplementary agreement on border definition. One hundred years previously, Russia had seized several tens of thousands of square kilometres of land from China in this area without any such treaty or agreement having been reached. China had long been demanding its return but Tajikistan had inherited the land following the collapse of the Soviet Union. The agreement reached between China and Tajikistan stipulated the symbolic return of several hundred square kilometres of the disputed land to China with Tajikistan retaining more than 90 percent of the area.

Positive change in Chinese diplomacy is further evidenced by, for example, China's entry into the World Trade Organisation (WTO) and its recent successive ratification of agreements A and B of the International Convention on Human Rights. More difficult to discern, however, is what has caused these changes.

With the U.S., the world's only superpower, pursuing increasingly unilateralist policy, China has perhaps begun shoring up its relations with its neighbours as a precautionary measure aimed at containing U.S. influence in the region. However, as relations with the U.S. are themselves improving, one would be hard-pressed to argue for containment of the U.S. as the primary cause of China's recent flexible diplomacy. The economy provides a further clue: with China's degree of external dependence (being the degree to which imports contribute to the gross domestic product) now twice that of Japan, the so-called trade superpower, it may be that there is increasing recognition in China that a stable external environment is vital to domestic economic development.

In particular, it is clear that changes in the structure of society as represented by economic development, improved standards of living and the rapid expansion of the middle class are steering a reformation of national consciousness. Coupled with the development of communication and interaction technology in this present age of information, moreover, these changes are exerting an increasingly significant influence on the formation of Chinese diplomatic policy.



The Chinese Ministry of Foreign Affairs, in response to popular demand, has, since autumn 2001, been holding regular dialogue with the people on the Internet. In regions such as Fujian with close ties to Taiwan popular opinion has increasingly made clear its opposition to military tension in the Taiwan Straits, which is said to have been instrumental in prompting the Beijing leadership's relaxation of its Taiwan policy. Further, with nationalism also on the rise, the party executive has permitted the publication of articles in the press calling for calmness in dealings with, for example, the U.S. and Japan. In any case, it would seem that the days of foreign policy being formulated behind closed doors with no regard to the will of the people are a thing of the past in China.

In the context of the above developments, a major debate on foreign policy has been underway in China since 2000. The issues under discussion are many and various, including (1) the cornerstone of foreign policy (the debate being over whether China, which has traditionally emphasised solidarity with the Third World, now that it has, for example, joined the WTO, should prioritise participation in the international mainstream as defined by the developed countries); (2) long-term strategy *vis-à-vis* the U.S. (previously, confrontation and conflict between the U.S. and China had widely been regarded as a matter of destiny, but these days the opinion that the two countries might develop healthy and co-operative relations in the future has been voiced in academic circles); and (3) Taiwan (the Ministry of Foreign Affairs executive has stated that the strongest weapon in China's arsenal against Taiwan is not military might but the economy).

The Chinese Communist Party 16th Party Conference to be held this autumn is expected to include sweeping changes of leadership. The new leadership under Hu Jintao and Zeng Qinghong is thought to be relatively flexible as concerns diplomatic affairs. Indeed, Zeng Qinghong is known as a Japanophile. Moreover, President Jiang Zemin's political theory of Three Representatives calling for self-imposed party reform is also prompting policy adjustment in the realm of foreign policy. In view of such, following the 16th Party Conference, China is likely to further intensify its efforts to construct long-term stable relations with the surrounding countries and regions, and to continue to ensure flexibility in relations with Japan. China, however, is not one to stick to the straight and narrow. The instability of the domestic economy, wealth disparities and ethnic tension, and nationalism are all quite capable of restricting the scope of flexible diplomacy. While the U.S. is for the time being prioritising its efforts against terrorism, should circumstances change it is possible that it might redirect its antagonism towards China. Moreover, Taiwan will certainly remain the Achilles' Heel of Chinese diplomacy. It will be in such situations that Hu Jintao and his party executive's commitment to promoting flexible and co-operative diplomacy will be put to the test. □

Towards a Strategic Realignment of Production Networks: Japanese Electronics Multinationals in Asia and China

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The Japanese electronics industry, which has long been the leading sector of the Japanese economy, is currently experiencing considerable financial difficulties. According to the forecasts of seven of the major electronics companies, their consolidated profit and loss accounts for the fiscal year 2001 are estimated to reach a total loss of 1.14 trillion yen. The companies are now trying to reduce their workforces by calling their employees to apply for voluntary resignation schemes. They are also cutting their workforces and closing down factories in Thailand, the Philippines, Malaysia and Singapore. At the same time, however, Japanese electronics multinationals are expanding their operations in China. This paper offers a historical explanation of how the present structure of the Japanese electronics multinationals' production network in Asia has been created, presents the result of quantitative analyses of the present structure, and discusses its prospects for change, focusing in particular on investments in China.

Investments to Asia

The Japanese electronics industry began its development in the late 1950s. After success in expanding exports to the United States, electronics companies then turned their eyes towards the Asian market, and started to set up factories in Asia in around 1960. These investments were intended to circumvent trade barriers imposed by Asian countries and to supply their domestic markets.

Matsushita, for example, established the so-called "Mini-Matsushitas" in the 1960s in Asia, which produced a full line-up of Matsushita's household electric appliances, such as television sets, refrigerators, and rice cookers, to supply the domestic markets of the host countries. The operations of these subsidiaries may actually have amounted to nothing more than the assembly of knocked-down parts imported from Japan.

In addition to these, Japanese electronics multinationals started to build factories in Taiwan, South Korea, Singapore and Malaysia from the late 1960s which served as export bases for electronic products and parts. After a period of deceleration of investments to Asia from the late 1970s to the early 1980s, Japanese electronics multinationals again accelerated the shift of their export bases from Japan to Southeast Asia after 1985, prompted by the appreciation of the yen. They increased the number of factories in Malaysia and Singapore, which they had been cultivating since the 1970s as export bases for television sets, semiconductors and household electric appliances. Thailand also became the focus of investments, with Japanese electronics multinationals setting up production sites for microwave ovens and refrigerators. In the 1990s, Japanese electronics multinationals turned their eyes to Indonesia and the Philippines.



Business in China

Japanese electronics multinationals began their involvement in China soon after the implementation of China's "reform and opening" policy. During the 1980s, sales of production lines for consumer electronics were the mainstay of Japanese electronics multinationals' business in China. The Chinese government did not refuse foreign direct investments during this period, but due to the "foreign exchange problem" it was difficult to maintain manufacturing plants for end products before 1993. Prior to 1993, the Chinese government required foreign-invested enterprises to earn the foreign currency they required by themselves. Consequently, it was difficult for foreign-invested enterprises to pay their foreign staff or to import materials unless they exported most of their products abroad. This "foreign exchange problem" had been the major obstacle to foreign direct investment in China until 1993. As for the production of key components, however, such as cathode ray tubes for color television sets, the government encouraged the entry of foreign companies by allocating them foreign exchange, because it was difficult for local industrial enterprises to produce such sophisticated items. Matsushita and Hitachi established factories for cathode ray tubes, and Matsushita set up a modernized factory to produce the key components of video-cassette recorders.

Since 1993, the foreign exchange constraint has been largely relaxed. Encouraged by this and the high popularity of their products among Chinese citizens, Japanese electronics multinationals rushed to China after 1993 to set up production sites. The number of production sites established in China from 1993 to 1996 is even larger than the number of those established in ASEAN in the latter half of the 1980s. Matsushita was the most aggressive, establishing 37 subsidiaries since 1992 covering most of the product lineup of the company. All of the nine major Japanese electronics multinationals have more production sites in China than in any other host country in Asia. The production sites in China are concentrated in Shanghai, Jiangsu, Guangdong, Beijing and Liaoning.

Business Performance in China

Japanese electronics multinationals' performance in penetrating the Chinese market has fallen short of expectations. In the case of color television sets, for example, the market share of Japanese brands actually *dropped* after Japanese companies had started operating their television plants in China. The Chinese market rapidly became the battlefield of domestic giants, leaving little room for the Japanese. The Japanese are also facing tough competition from strong domestic challengers in the markets for washing machines, refrigerators, and air



conditioners. The most disappointing case was the VCR market. When Matsushita's VCR component factory started operation, the market for VCRs had virtually disappeared because a cheaper alternative, the video CD player, had become popular among Chinese consumers.

However, since the Chinese market for consumer electronics is so huge, a decent market share may not be so small in terms of absolute production volume. A plant can maintain a high rate of operation and be profitable, even when the company's market share is small. In fact, as the battle for market share among domestic companies is so fierce, and the price of end products drops so quickly, a high market share does not necessarily mean large profits. The business performance of the production sites of Japanese electronics multinationals can be speculated by estimating the rate of operation of the plants. According to my estimations, the operation rate of Sony and Matsushita's color television factories exceeds 70 percent, which can be taken as relatively successful. The operation rates of Hitachi and Victor's television plants are only 25 percent. It is not surprising that these companies have recently decided to withdraw from their joint ventures.

The Location Behavior of Japanese Electronics Multinationals

The history of foreign direct investments by Japanese electronics multinationals in each Asian country followed a common pattern: to begin with Japanese companies set up production sites in order to avoid trade restrictions and penetrate the domestic market; later on they start to use the country as an export base by establishing new production sites or by changing the existing sites' functions. Even when the country loses its comparative advantage as an export base, Japanese companies still attempt to utilize the subsidiary by changing its function.

A regression analysis of the data of Japanese electronics investments in ten Asian countries during 1983 to 2000 indicates that the market size of the host country, represented by its GDP, is a significant factor in explaining the number of Japanese electronics operations in the country. Low wage level is also a significant factor in attracting investments. If the data of the period after the Asian economic crisis is excluded, the depreciation of the host country's currency relative to the yen is also a significant factor. In addition to these environmental conditions, it seems that the bandwagon effect among Japanese electronics multinationals has also affected their investment behavior. The numbers of investments in Thailand, Singapore and Malaysia in the latter half of 1980s and of those in China during 1992-1996 far exceed the numbers predicted from our regression model.



Another factor that may affect location behavior is the agglomeration effect of the electronics industry. Electronics enterprises will select the countries where they can enjoy better access to the supply of parts and components. A regression analysis of the geographic distribution of Japanese electronics multinationals' subsidiaries among the 31 provinces in China indicates that Japanese electronics multinationals selected the provinces in which the electronics industry had developed, rather than the provinces with a large regional market. The availability of college graduates, represented by the number of college teachers, is also a significant factor that attracts Japanese electronics investments. Provinces with low wage levels did not attract Japanese electronics investments, but this may be due to the failure of Chinese official statistics to capture the actual wage levels faced by foreign invested enterprises.

Towards a Strategic Realignment of Productions Networks

The analyses show that Japanese electronics multinationals have erected subsidiaries in Asia in order to serve two functions, domestic market and export. The two functions are often fulfilled by different operations in the same country or by the same subsidiary in different time periods. When a subsidiary turns out to be incapable of attaining the initial goal of investment as a result of changes in the market environment and the host country's comparative advantage, Japanese firms often try to maintain it by changing its function rather than closing it down. Hence, the incidence of withdrawal from Asian countries is quite small.

The tendency to maintain existing operations as long as possible, however, causes the duplications of functions between subsidiaries and leads to overcapacity. Matsushita, for example, has a television factory in each of five Asian countries: China, Vietnam, Thailand, Malaysia and Indonesia. If Asia transforms itself from a mass of small, compartmentalized markets into an integrated market, the traditional strategy of "building without scrapping" must be realigned. It is very likely that Japanese electronics multinationals will further concentrate their production bases in China in the near future, because China has the advantages of labor and supplier networks which the Japanese electronics multinationals themselves have contributed to create. Consideration of the political repercussions in response to the closure of plants may deter the Japanese firms from closing their plants in Southeast Asia. The high cost of cutting workforces in Japan may be an obstacle for the reduction of production capacities in Japan. The financial situation of Japanese electronics multinationals, however, leaves little time for them to hesitate.

□

Japanese Auto Production Networks in China: Too Little, Too Late?

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China is emerging as a major market and production location for the global auto industry. Despite the relatively modest size of China's market for passenger cars at present—likely to total around 900,000 units in 2002, smaller than the Spanish market—China's gigantic population, swift and sustained economic growth, extensive road system and rapidly improving production skills all point to its eventual emergence as a major center of automobile production and sales.

China's expanding market and capabilities would seem a perfect fit for the powerful but recession-plagued Japanese auto industry, and indeed Japanese auto executives, even more than their counterparts in Europe and North America, have hailed China as a last and best hope for new sales. This rosy scenario is shadowed by several clouds, however. Skeptics point to the still modest size of the Chinese market, the difficult structural transformations facing the Chinese economy, and the low level of household income to suggest that demand for autos will increase only slowly. Moreover, even if China manages to overcome the numerous obstacles to further growth, Japanese auto companies may not reap many of the gains, for they are relative latecomers to China, and face their own competitive challenges at home.

Scarcely a decade ago, Japanese auto assemblers appeared invincible. Western analysts hailed the innovations in layout, worker training and tight integration of parts producers that allowed assemblers to achieve "lean production"—getting things right the first time rather than relying on massive inventories and after-the-fact repairs (Womack et al., 1990). Relations with parts suppliers came in for particular praise, as Toyota and its Japanese rivals developed an elaborate pyramidal network of suppliers to transcend the usual dichotomy between integrated multi-divisional firms and atomistic markets. Assemblers entered long-term relations with a small number of first-tier suppliers, usually two for each part. They demanded recurrent cuts in prices and accepted new bids at model changes, but in return they provided steady orders and abundant technical support; small investments and dispatch of executives from the assembler often cemented relations.

In the 1990s, this impressive model began to unravel (Maruyama, 2000). Auto firms have long been among Japan's strongest exporters, but those exports grew out of a large and firmly protected domestic market, and after 1991 sales shrank. Overseas production increasingly supplanted exports,



while imports took a slightly larger share of the local market, particularly in the lucrative luxury segments. Only Honda and Toyota earned a decent return on their investments, and even they usually trailed major foreign competitors. The Japanese auto parts industry, once seen as superlative, stagnated while Western competitors such as Delphi (formerly GM's in-house parts operation), Visteon (spun off from Ford), and Germany's Robert Bosch developed global production networks and expanded through mergers and acquisitions. Only Denso remained a major world force, and even it was less than half the size of Delphi. The rise of China as an auto center thus accentuated fears that Japan's manufacturing industry faced imminent "hollowing out."

At first glance, this seems implausible, since China's auto industry is still emerging from an antiquated Stalinist system of production (Shiomi, 2001). Under the planned economy of the 1950s, giant industrial complexes such as First Auto Works (FAW) in Changchun produced antiquated truck models for sale to government units. The Chinese government's turn toward self-sufficiency and localism in the 1960s only multiplied the inefficiency. Unable to specialize or gain economies of scale in production, and oriented to production plans rather than market demands, auto firms produced small numbers of low quality trucks.

With "reform and opening" in the 1980s, demand gradually shifted from trucks to small commercial vehicles and passenger cars, making efficiency, flexibility and responsiveness more important. The transformation was accelerated by the introduction of foreign capital and technology, led by Volkswagen's joint ventures with the Shanghai Auto Group (1985) and FAW (1991), Citroen's alliance with Dongfeng (then Second Auto Works) in Wuhan (first vehicle completed 1995), and GM's alliance with the Shanghai group (1997). Government strategy, particularly as articulated in the auto industry policy of 1994, aimed to encourage the emergence of a more consolidated industry capable of reaching economies of scale with 8-10 assemblers by the year 2000 and just 3-4 by 2010 (Ministry of Machinery Industry, 2001: 1-11). China's policy of pegging tariffs on imported parts to the level of domestic content contributed to a rapid ramp-up in domestic production, but consolidation remained a distant goal. In the late 1990s, a third of motor vehicle output still came from firms outside the "three large, three small, two tiny" structure (Shiomi, 2001: 5). China's hybrid system, with its state-owned enterprises, joint ventures and local producers, retained



too many assemblers, too many parts producers, and too many workers, resulting in weak or non-existent profitability. Entry to the WTO has exacerbated the situation, as falling tariffs have sparked steep price cuts, although foreign pressures alone are not likely to exert a decisive influence, since tariffs and non-tariff barriers remain substantial, and China's market will be large enough to justify domestic production of mainstream models.

Although Japan's leading assemblers of passenger cars were late-comers to China's coming-out party, producers of trucks and minicars (engines of 800cc or less) entered into technology licensing agreements and modest joint ventures relatively early. Suzuki, probably the most cost-efficient producer of motor vehicles in the world, signed a technology transfer agreement in 1992 in conjunction with Nissho Iwai, a leading Japanese trading company, and Zhongguo Bingqi Gongye, part of the large Beifang Gongye military industrial complex. The 800cc minicars produced by Chang'an Suzuki sold for about 50,000 yuan, less than half the price of normal passenger cars, and production increased smoothly. The parent company, however, found itself unable to keep up with the demands of investments in new engines, safety and environmental technologies. Suzuki, formerly only weakly affiliated with GM, sold 20% of its stock to the American company and increasingly integrated its planning into the GM group. Daihatsu, once an affiliate and now a subsidiary of Toyota, also entered China early, licensing its truck technology to Tianjin Automotive in 1983 and beginning production of its Charade passenger car in 1986.

After publication of the auto industrial policy in 1994 implied that latecomers could be denied entrance, the parent company quickly sought a license to produce passenger cars. The Chinese government required that Toyota first invest, directly and through its affiliated firms, in local production of parts. Though it had no immediate market for the parts, Toyota reluctantly agreed. By the end of the decade 30-odd Toyota suppliers had entered the Tianjin area, and in 2000 Toyota received licenses to produce Vitz subcompacts beginning in late 2002, and to update the aging Charade, whose plant ran at only about one-third of capacity.

Honda, Japan's second-largest auto producer, traced a similarly difficult path. After more than a decade of investing in motorcycle plants in China, in 1995 it established a joint venture with Dongfeng to produce auto parts in Guangdong. The Chinese government, however, declined to grant licenses for engines or assembly. Fortunately for Honda, Peugeot's joint venture in



the provincial capital of Guangzhou then failed, and in 1998 Honda was able to take over. Building on its extensive experience in overseas production of cars and motorcycles, Honda quickly transferred technology for its mainstream Accord models and expanded production. As with Dongfeng, it relies on a network of parts suppliers dispersed throughout the country. The China operation is already profitable and observers expect Honda to invest in a new plant soon.

Japan's other auto assemblers have approached China relatively cautiously. After resuscitation under Renault, Nissan appears to be aiming to deepen its alliance with Dongfeng. Given the government's reluctance to license additional assemblers and Dongfeng's successful joint venture with Citroen, Nissan may face stiff terms. Similarly, compared to their Western competitors, Japanese parts producers have taken a relatively guarded approach to investments in China (*Asian Automotive Business Review*, 1997: 24-26; Fouin, *Kaigai Jidousha Chousa Geppou*, 2000: 20-25).

All foreign entrants face major challenges in China. Quality, once atrocious, has improved immensely, at least at foreign-affiliated joint ventures, but further efforts are required. At Dongfeng, for example, though the workforce is extremely well-educated, the average worker is still capable of handling only three to four posts, compared to 10-14 in France and even more in Japan, while job rotation, an important means to developing skills in Japanese plants, is limited (Shiomi, 2001: 106-111). Building up effective relations with Chinese firms is a greater challenge. The legacy of complex ownership structures and intervention by central and local governments continues to cast major shadows over commercial decision-making. Complex, overlapping relations and uncertainty about future developments in the context of a jolting transition to a market economy also make it difficult to establish close "Japanese-style" ties between assemblers and suppliers. Third, if production skills have improved rapidly, the development of significant local design skills remains a much more distant prospect. Sino-foreign joint ventures still make only the most modest modifications to models designed and engineered elsewhere. Finally, looming behind all decisions is the persistent overhang of excess capacity. The Chinese government's attempts to limit entry actually stimulated firms to establish themselves early, even though market demand remained limited. The lack of hard budget constraints at Chinese banks and the interest of local officials in keeping alive sources of revenues and employment combine to



limit market exit.

A recent field trip to Tianjin and Shanghai (April 2002) highlights both the accomplishments and the continuing dilemmas facing Japanese auto producers in China. In Tianjin, the divergent interests of Toyota and Tianjin Automotive, which also owned operations in trucks, parts and marketing, created recurrent tensions. The most important joint venture, established in 1996, is an engine factory. Quality has improved rapidly and the plant has received ISO certification for both quality and management. After an aggressive program to reduce labor costs, the head count, initially 1500, is down to 1200, but the plant is not yet profitable and management is determined to reduce it to about 800. Local managers reveal a relatively positive attitude toward Toyota, though not necessarily to other Japanese firms (cf. Fouin, 2000: 21 and Far Eastern Economic Review, 1999: 50-53). The great lacuna is design: the plant is entirely focused on production and has virtually no independent design capability.

The government of Tianjin, one of the largest cities in China, once had ambitions to create a major automobile complex, but local officials now view cooperation with Toyota as their only realistic future in autos. They have refused some other auto-related investments on the grounds that they are unlikely to succeed. They openly expressed commitment to pressuring Tianjin Automotive, a poorly organized and ill-focused conglomerate, to abandon its strategy of trying to maintain autonomy *vis-à-vis* Toyota. Since then, First Auto Works announced that it would effectively acquire the majority of Tianjin Automotive's operations, and create a joint venture with Toyota to produce luxury cars in Tianjin or Changchun. According to media reports, First Auto only wants to keep 15,000 of Tianjin Auto's 60,000 workers (*Auto-Asia*, 2002) suggesting that the Tianjin municipal government finally bit the bullet and accepted that effective restructuring would entail significant short-term pain and the sacrifice of some local control. For Toyota, the announcement implies that while significant new opportunities are possible, they will require ongoing relations with complex state-owned enterprises, most of which have multiple foreign partners.

Developments in Western-dominated Shanghai have been smoother. Both Volkswagen and GM continue to invest large amounts in their joint ventures with the Shanghai Automotive Industry Corporation. VW enjoys the first-runner advantage but is more constrained in its joint venture. GM purchased a higher level of autonomy, but at the price of a 50 percent



investment in a state-of-the-art plant costing \$1.6 billion dollars. Abundant, relatively inexpensive land, a large labor force and convenient transportation have encouraged the development of a cluster of parts firms, many of them with investments from Western or Taiwanese firms, west of Shanghai. Nine of Delphi's fifteen Chinese plants, for instance, are located in or near Shanghai. All plants export, and exports account for roughly a third of total production; quality is high and many of the plants are quite profitable. Japanese parts firms, in contrast, are only modestly represented. None of Denso's five Chinese manufacturing facilities, for example, is in the Shanghai area (three are in Tianjin, one in Yantai and one in Chongqing), while the parts industry's second-largest firm, Aishin Seiki, has only one plant near Shanghai (in Zhejiang; the other three are in and around Tianjin) (Fouin, 2000; Denso, 2001).

The recent surge of interest by Japanese automakers in China is probably not too late, but it may be too little. Chinese consumers appreciate the quality and fuel efficiency of Japanese cars, so Toyota and Honda, at least, are likely to remain competitive. Other Japanese assemblers, such as Suzuki and perhaps Nissan, may also develop viable operations. Even if they succeed, however, they will not necessarily provide a major stimulus to the Japanese economy as a whole, or especially to the smaller parts companies, which have not been able to follow the assemblers to China. The gap between China's long-term potential and limited short-term buying power, plus the continuing influence of the government's industrial policy, may well make firms look to exports, in some cases at the expense of Japanese operations. Nor would the successes of a few Japanese assemblers provide a complete vindication of the Japanese production system pioneered by Toyota. With the partial exception of Toyota in Tianjin—and even Toyota is constrained by its joint venture partners—the traditional Japanese pattern of close relations with a pyramid of suppliers seems unlikely to emerge. China's hybrid system is likely to remain closer to Western than Japanese patterns, if only because Western suppliers are more active in China, more globalized, and more profitable.

So far, the overwhelming focus of Japanese auto firms in China has been on production and quality rather than design. The keys to success in today's auto industry, and in manufacturing more generally, are not just producing low-cost, high quality goods, but integrating global operations and designing attractive models. From this perspective, the stylish and highly



globalized Honda may provide a better guide to the future of Japanese industry—in both China and Japan itself—than the traditional *hi-no-maru* leader Toyota.

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WTO Membership and the Fate of Chinese Law

Tanaka Nobuyuki

Towards the end of the 1970s when, together with the start of its "reform and opening" policy, China announced its transition to government by the rule of law, those who believed this to be an achievable goal were few and far between. More than 20 years have passed since then, and while opinions remain split on whether China qualifies as practising constitutional government, it cannot be denied that revision of the legal system has taken place at remarkable speed and that, for the present, the system has at least been furnished with many of the trappings of the rule of law. This, in itself, is an enormous change.

For China in the 1980s, however, it would have been enough to amend only the laws pertinent to China's own "reform and opening" policy. These laws remained unflinching in their assertion of China's legal autonomy *vis-à-vis* the outside world, and what might have seemed from the outside to be somewhat enigmatic and opaque legal logic was, in China, quite acceptable. But in the 1990s, Chinese law, as if throwing off the distinctive Mao jacket in exchange for the ubiquitous Western suit, began to tone down its perplexing and fierce individualism, assuming instead a comparatively welcoming and familiar facade. Needless to say, these legal changes mirrored the "reform and opening policy" of the 1990s that made a bold break from adherence to China's unique brand of socialism, redirecting the nation towards the market economy. In addition, China's declaration of its intent to join the World Trade Organisation (WTO; at the time, the General Agreement on Trades and Tariffs, or GATT) linked marketisation of the economy with globalisation and had a significant impact in terms of reducing the idiosyncratic nature of Chinese law.

These changes to Chinese law, however, have not merely taken place in areas of law related to the economic system, such as civil and commercial law. In order for China to be welcomed in international society as the Asian superpower, demands have also been made in the political sphere concerning, for example, due democratic process for modern constitutional government and the protection of human rights. In particular, in order to lend credence to negotiations for entry into the WTO, it was vital for China to wipe clean the negative image left by the Tiananmen incident in 1989. Diplomatically, China displayed a recalcitrant and unyielding attitude to Western economic sanctions and human rights diplomacy. On the other hand, in order to respond to domestic and international criticism, the government began to undertake a series of legal revisions aimed at



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strengthening the legal protection of democracy and human rights, with the result that by the mid-1990s it had achieved tangible reform of criminal and administrative law. The recognition of "human rights" in Chinese law, which had previously been regarded as a bourgeois legal concept, should be understood as an extremely symbolic development.

In what might be seen as a somewhat contradictory development, reform of civil and commercial law did not progress as smoothly as the revision of criminal and administrative law. Laws necessary to standardise the market, such as the Unfair Competition Prevention Law and the Consumer Interests Protection Law, were passed early in the 1990s. However, the establishment both of Contract Law and of a legal foundation in the form of a Civil Code proceeded at best in fits and starts. Starting with the United Nations, the World Bank and the International Monetary Fund, Western countries put pressure on China by offering various forms of assistance in return for the development of its economic legal system, but while this certainly produced fruit, as it were, on the leaves and branches, the roots of the system were essentially left untouched.

Only the development of Company Law, however, traced a slightly different course. The legislation of Company Law, which was entrusted with the task of reforming state-owned enterprises, was enveloped in a veritable maelstrom of confusion in the late 1980s. It was thought that the occurrence of the Tiananmen incident had dispelled any hope of early legislation. Nevertheless, contrary to the expectations of most, once the aftermath of the incident had subsided, the law was promptly passed without much ado in 1993. What suffered in the shadow of Company Law legislation, however, was the Securities Law. The Securities Law had been prepared for passage at the same time as Company Law but, by a twist of fate, it became embroiled in political controversy and was forced to travel a winding road until its enactment in 1998. Company Law, however, charged with the audacious task of reorganising state-owned enterprises into publicly traded companies, while enjoying a relatively problem-free birth, suffered serious teething pains with respect to its actual enactment.

During the five years or so after Company Law was legislated, it was effectively put on the shelf and left untouched. Despite the fact, then, that the government had no intention to seriously enforce Company Law, it had hurried the law's enactment. While the fact that Company Law, the pillar of state-owned enterprise reform, was allowed to stand and go sour could be

interpreted as an indication of the government's intention to pursue market economy-oriented reform, as law Company Law was as good as dead. A turning point for the law came with the 1997 Party Conference, which led to the revitalisation of Company Law, and it was no accident that the Securities Law was enacted soon thereafter, almost as if keeping pace. The reason for this is clear. With WTO membership looming ahead, there was no longer any margin for disagreement over the enactment of substantial reform.

The circumstances surrounding the enactment of Company Law, coupled with the fact that the problem did not rest solely with the act itself, hold an important lesson. In line with the globalisation of the Chinese economy, Chinese law is being obliged to globalise as a matter of course. Since prior to its accession to the WTO, China has been revising legal stipulations that do not conform to WTO standards and continues to do so. The establishment of the Civil Code is also being expedited, such that in the not-too-distant future China may be able to devise a new legal system that will dispel the longstanding reputation of Chinese law. This will doubtless be a legal system fitting for modern constitutional government. On the other hand, however, it seems unlikely that China will be able to avoid the growth of the gulf between the law and the actual state of society. While it is certain that the establishment of the rule of law is the direction that China itself has chosen, the fact that impatient globalisation runs the risk of causing the hollowing out of this very constitutionalism can only, as far as China is concerned, be described as an ironic fate.

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Agricultural Structural Adjustment in China and Japan

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China's accession to the World Trade Organisation (WTO) in December 2001 will possibly prove to have a highly positive effect on both the international economy and on China's own development. In particular, trade deregulation is likely to have a significant impact on the majority of China's population that currently makes a living from agriculture.

I am currently engaged in a joint Sino-Japanese farm household survey covering China's seven counties, which was begun in 2000 with a planned duration of three years. The survey aims to create panel data sets concerning changes in employment circumstances and income structure for some 600 households surveyed at the beginning of the 1990s. Results from the 400 households in the five counties surveyed thus far indicate that over the past decade instances of exodus from farm households have been rare, and that the creation of branch families (with inheritance traditionally being divided on a per capita basis) has led to an increase in the number of farm households and an attendant increase in the total populations of both these households and agricultural labourers. On the other hand, the average amount of farmland owned per household has declined. Moreover, there has been a significant shift towards part-time agriculture and seasonal migration, such that the labour force engaged in full-time agriculture has decreased in number.

The aims of the survey are, from the perspective of structural adjustment, to clarify what changes have taken place in Chinese agriculture at the micro level during the last ten years. Further, through comparison with countries like Japan, South Korea and Taiwan where initial conditions, systems, and policies share much in common, we hope to shed light on the direction in which Chinese agriculture and agricultural communities will develop hereafter.

The debate on agricultural structure developed during the 1950s and 1960s in the Western developed countries and Japan. Consequently, it focused on redressing excessive resource allocation to agriculture and agricultural communities chiefly by means of sectoral redistribution of the labour force and the accumulation of farmland by the agricultural upper and middle classes. The debate further concentrated on achieving enlargement of the scale of farming, increase in farm productivity by the selective expansion of crop and farm products, structural improvement, and parity of income between agriculture and industry. In Japan, a report by the Agriculture, Forestry and Fisheries Basic Problems Research Committee laid the foundation for the Agricultural Basic Law of 1961, which for 40 years has remained the basis for Japanese agricultural policy in the form of so-called



structural improvement policy or structural adjustment policy.

Japan's high economic growth was accompanied by alleviation of the excess agricultural labour force through a marked shift towards part-time agriculture and the departure from agriculture of many of the second and third sons of farmers. Nevertheless, because of the increase in land prices caused by high economic growth and the implementation of agricultural protection policy, the transfer of rights on cultivated land did not progress as rapidly as expected. Structural adjustment of land farming, moreover, and enlargement of the scale of rice farming in particular, proceeded at best incrementally. Further, price support policy resulted in both rice surpluses and increased importing of wheat and feed products (maize and soybeans), such that Japan, along with the former Soviet Union, became a huge importer (*yunyû daikoku*) of agricultural products.

On the other hand, commercial agriculture such as livestock and horticulture developed and expanded and, in this way, selective expansion of production was realised. Border measures and price support policy were also adopted on many of these commodities, which was later to lead to problems with excess production and market opening. Incidentally, by the 1970s, income transfers caused by agricultural protection and the shift to part-time farming, and the resultant trend towards multiple employment on the part of the agricultural labour force, had the effect of raising farm household income above the household budget of an urban worker.

In China, agricultural development during the period of economic transition has been accompanied by a rise in the price of agricultural products, and insofar as this has necessitated a departure from previous economic development strategy based on the premise of "cheap food, cheap wage," it has represented a certain kind of recovery. Since 1984, a cycle of surplus and shortage repeated itself, and since 1997 the overall trend has been one of surplus production, showing that in basic terms agricultural resource allocation has reached excessive levels. In 1994, the price of agricultural products rose, and over the following two years price support policy was strengthened and emergency supplies of agricultural products imported. During this period, moreover, international interest in China's food security also rose (see, for example, Brown, 1995). However, if there is a lesson to be learnt from the recent trend of surplus production, it is that production shortage in such circumstances represents a short-term market fluctuation rather than an international dilemma (Tajima, 1996).



Learning from these market fluctuations, the government under Premier of the State Council Zhu Rongji announced the introduction of price support policy for food from 1998 on, but lacking the necessary budgetary support, it has been unable to put the brakes on the trend towards declining prices in the market. Price support may serve as a kind of built-in stabiliser in the wake of the Asian Financial Crisis, but if China is to meet WTO standards, whether for better or for worse, it will be unable to indulge in substantial agricultural protection hereafter.

According to the agricultural census of January 1997, there are some 220 million farm households in China. A prior land census had calculated the total of cultivable land as 138,660,000 hectares, from which it can be deduced that the average amount of farmland per household is no more than about 63 ares. The meagre scale of holdings combined with a massive agricultural population leads one to conclude that China's phase of the Lewis-type "unlimited supply of labour" will certainly remain in abundance for the next ten years and quite possibly for some decades thereafter. This is not something that should be viewed in a negative light; rather, it seems that China will be able to maintain reserve capacity for growth for at least several decades to come.

Nevertheless, the systemisation of China's labour market has been retarded by such archaic institutions as the family register system, and if one considers the present state of the real estate and education markets, it seems likely that sectoral redistribution of the labour force will predominantly take the form of part-time employment of, and seasonal migration by, unskilled labour. It must be said, therefore, that in current circumstances there is scant possibility that the exodus of peasant families from the rural areas will be accompanied by substantive structural adjustment of agriculture and agricultural communities; namely, that the upper-class of family farms will consolidate larger holdings of farmland and expand the scale of agriculture. Rather, it is likely that the numerous subsistence farmers will, like their counterparts in East Asia, opt for part-time employment, seasonal migration, and more labour intensive non-grain agriculture, giving added impetus to the trend towards multiple employment.

The diversification of Chinese agriculture does, of course, have historical precedent. However, if we limit the discussion to the period of economic transition, we can see that it was first attempted at the end of the 1980s under the aegis of the Ministry of Agriculture's shopping basket program, which concentrated on vegetables. Then in the latter half of the 1990s when the basic surplus of the grain supply became evident, the government coined the



slogan "industrialisation of agriculture" and began to emphasise the independence of agriculture as industry in terms of management. Further, from 1999, the State Economic and Trade Commission proposed as policy the creation of a comprehensive food circulation system in the form of the "three green project" (espousing the development of green corridors, the fostering of green markets, and the advocacy of green consumerism). The project complements current policy to develop Western China—that is, to correct the imbalances between the coastal and inland areas—and aims to establish a widespread market network and distribution system. Even in China, structural reorganisation of agriculture based on changes in consumption structure and consumer consciousness has become inevitable.

When, in April 2001, the Japanese government imposed emergency import restriction safeguards on green onions, *shiitake* mushrooms and *tatami*-mat facing, these chiefly targeted imports from China and brought about a trade dispute between the two countries. China responded in June by imposing substantial import restrictions in the shape of a special tax of 100% on Japanese automobiles, cellular phones and air conditioners. As of December 2001, the trade row had been concluded with the decision to establish an agricultural product trade council composed of both governments and agricultural groups from both countries with the purpose of reviewing exports to Japan.

As it happens, a similar trade row had occurred earlier between China and South Korea involving Chinese garlic exports, to which China responded by imposing import restrictions on Korean cellular phones and polyethylene. The row was similarly concluded with both governments reaching an interim accord. In the agricultural produce trade row between China and Japan, then, China is in familiar territory.

Chinese agricultural trade has historically been structured around exports of rice and ingredients for Chinese cuisine for which China holds a comparative advantage, and imports of wheat for which it is at a comparative disadvantage, and China has maintained an overall export surplus in agricultural trade since the mid-1980s (Tajima, 1996). Due to rising domestic prices China's international competitiveness as regards cereals is gradually declining; however, exports to Japan of onions and other vegetables had already begun in the 1970s, as had exports of shrimp and eel and other marine products in the 1980s. In particular, since the late 1990s increased developmental imports of agricultural products and direct investment in



agribusiness, chiefly from Japanese companies, have armed China with competitive low prices that have swept over the Japanese market.

In other words China, like other East Asian countries, has historically held a comparative advantage with non-cereal products such as vegetables, fruit and pork, and it is likely that with the structural adjustment of domestic agriculture, production of these products will expand and form the basis for an export drive. On the other hand, emergency import restrictions are measures that should be invoked to establish a grace period for domestic production struggling in the face of increased imports from abroad, during which period competitiveness should be strengthened by structural adjustment. In Japan, however, as regards its production of green onions, *shiitake* mushrooms and *tatami*-mat facing, structural adjustment measures to prepare for competition from abroad have not previously been taken, nor is it at all likely that the recent safeguards were imposed with the purpose of strengthening domestic production through structural adjustment.

As explained above, 40 years have passed since the Agricultural Basic Law was promulgated in Japan in 1961. During this period, while the employment structure of farming households has undergone significant transformation, one cannot help but feel that the structural adjustment of agricultural production has perhaps been long delayed for the sake of agricultural protection. One wonders, therefore, to what extent Japanese agricultural management will be able to meet the challenges of international competition.

It may well be that insofar as it is able to formulate and implement policy while paying heed to the results of historical policy choices made in other countries, China possesses a certain latecomer advantage as regards its own agricultural structural adjustment. What remains to be seen, then, is whether and how this advantage is put to use. In view of Asia's increasing internationalisation, this is a question of great significance for the whole region and beyond.

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Japan and China: History and Textbooks

Namiki Yoriyisa

Last autumn I was involved in a project to translate into Japanese the full text of the Chinese history textbooks used in Chinese middle schools in order to introduce them to Japanese readers. In Chinese middle schools, four textbooks are used over two years to teach the country's history. As one school year consists of two semesters, one textbook is used each semester. We integrated the four textbooks we translated into one large volume of roughly 1300 pages--the very first thing one notices about Chinese historical education is the overwhelming quantity of information.

During the first half of last year Japanese public opinion had been aroused by the controversy surrounding new, allegedly nationalistic, history textbooks published in Japan. Nevertheless, as our translations were published after the simultaneous terrorist attacks of September 11 in the United States, the consequent shift in public attention ensured that the publication of Chinese history textbooks in Japanese did not attract undue media attention and was received extremely calmly by the book market. This was, indeed, the kind of reception that we had hoped for.

Chinese historical education and history textbooks

Historical education around the world now more than ever occupies an extremely important place in each country's elementary and secondary education. By way of example, the long-lasting and acrimonious disputes between Japan and its neighbours over Japan's history textbooks have vividly illustrated the importance attached to historical education in Northeast Asia. The contemporary emphasis on historical education finds its root cause in the existence of the nation state system. That is to say, historical education in each country usually assumes the role of explaining the existing state and the origin of the people belonging to it in historical terms. The history textbooks currently used in China, as is clear in the *Chinese History* that we translated, similarly reveal as their *raison d'être* the justification of both the historical origins of the current Chinese State and its continuation in the future. Living outside China it is, of course, possible to see this underlying posture from the perspective that distance affords us; however, to a certain extent it is also necessary to understand such motivations as the international norm.

In Japan's case, as in China's, the existence of the current nation state is regarded as a self-evident prerequisite to historical education. The history section of Japan's "Middle School Learning Guidance Outline" (*Chūgakkō Gakushū Shidō Yōryō*) states that the first aim of historical education is,



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Notes

¹ Incidentally, it was partly the use of the word "*kokumin*" (a word meaning "citizen" or "national," with an alleged nationalist nuance) in the title of the history textbooks published in Japan last year (*Kokumin no Rekishi*) that fed the subsequent controversy [Ed.].

² The "Four Basic Principles" described here are the basic principles expounded by the then-supreme leader Deng Xiaoping at the Chinese Communist Party Conference in the spring of 1979 in response to growing student democracy movements in the early years of the period of reform and opening, with the aim of stabilising the communist system. The principles he asserted were the Socialist Road; the Dictatorship of the Proletariat; the Leadership of the Communist Party; and Marxism-Leninism and Mao Zedong Thought, principles based on a fundamental mandate to protect the entire Chinese nation.

"further to increasing interest in historical phenomena, ensuring understanding of the distinctive features of our country's overall history and historical eras in the context of world history and thus causing our country's culture and traditions to be considered from a broad perspective, to deepen devotion to our country's history and imbue consciousness as a citizen thereof." Historical education, then, should cause "our country's history" (*wagakuni no rekishi*) to become part of the "citizen's" (*kokumin*)¹ identity.

In the early 1990s, the Chinese government announced a plan to strengthen "education on national conditions" and "education on China's recent contemporary history." This development clearly reflected the State's stance concerning the role that historical education should play. The term "national conditions" reflected the fact that with changes in the international *status quo* between the 1980s and 1990s leaving China alone as a socialist world power, the Chinese government deemed it necessary to re-emphasise the reasons why socialism remains indispensable to the Chinese State.

Moreover, education on China's "recent contemporary history" was not simply to be a case of emphasising the temporally recent past. The People's Republic of China (PRC) exists as a result of the all-out struggle against feudalism and imperialism waged by the Chinese Communist Party within the unique contemporary Chinese historical context defined by semi-feudalism and semi-colonialism. The rationale behind "recent contemporary historical education" was the dissemination of a historical consciousness thus delineated. In 1990s China, it was deemed necessary to reaffirm and reassert these foundational concepts.

The purpose of learning history

The *Chinese History* that we translated included a preface at the start of each volume explaining the basic purpose of the textbooks:

This volume was compiled, focusing on the development of student potential and based on a recognition of the value of education regarding, in particular, China's recent contemporary history and national conditions, with a view to fostering students' ardent devotion to their Country, the Chinese Communist Party and the Socialist Mission, and adherence to the Four Basic Principles.² In addition, this volume was compiled in order to cultivate student ability, to strengthen basic knowledge, and to broaden that knowledge base, as well as to alleviate the burden of learning.



The substance of this preface is that historical education should contribute to the cultivation of a worldview that prioritises the support and defence of the PRC system in which the Chinese Communist Party holds the reins of leadership and, further, should prepare each citizen to support the system by participating in the task of nation-building. The preface uses the phrase "ardent devotion" (in Japanese, "*netsuai*") towards Country, Party, and the Socialist Mission to express such a desire to support and defend the system.

What, then, of the textbooks' composition and content? China's history textbooks for secondary education are composed according to the National Committee for Education's "General Rules for Historical Education during the First Stage of Middle School in the Nine Years of Obligatory Full-time Education." The "General Rules for Education" exist in the form of a pamphlet distributed by the People's Educational Publishers in 1988.

Section five of the pamphlet, "Educational Content," includes a list of historical events representing the historical content suitable for China's Chinese history and world history textbooks. The textbooks we translated conformed precisely to this list in terms of their structure and the headings for each topic.

In addition, the first section of the pamphlet, "Aims and Requirements of Education," states concerning the principal aims of middle school historical education that:

Historical education during the first stage of middle schooling must teach the students the elementary perspectives of dialectical and historical materialism and, in particular, should instruct them about the principles of social development. In addition, students should be educated about patriotism, internationalism and the fundamental direction of the Primary Stage of Socialism, as well as the tradition of revolution and moral sentiment. Students must be educated such that they feel an historical sense of responsibility and devote themselves to the construction of our contemporary socialist state and to the peaceful and progressive advancement of humankind.

The above excerpt further illustrates how historical education in China is seen as being closely related to the task of national and social construction based on China's original theory of socialism, which, in turn, is defined in accordance with prevailing conditions. Further, historical education is also



expected to contribute to this task. As such, historical education is clearly linked to "education on national conditions."

The concepts of patriotism and internationalism are in this context both defined by socialism and are explained from the perspective of historical materialism. The theory of historical materialism explains history in terms of irreversible stages. Textbooks, then, are charged with the task of explaining Chinese and world history as representing the embodiment of this theory in actual historical process. The influence of socialist concepts is yet greater. Through the inculcation of socialist concepts, an "historical sense of responsibility" with its roots in the "tradition of revolution" is nurtured and cultivated. History can only be understood according to China's own experience of socialist revolution.

The development of society

A further document, the "General Rules for Full-time Middle School Historical Education," which was distributed in the early 1990s, is highly consistent with the National Committee for Education's pamphlet described above on the appropriate manner and means of historical education. Regarding the aims of historical education, this document maintains that since China is a socialist country it is of primary importance to ensure comprehension of the principles of historical development of human society, principles that originate from the foundational ideas of socialism. The document elaborates on this assertion with an explanation of these principles of social development in a subsequent section concerning the handling of educational content:

Human society has developed from Primitive Society to Slave Society to Feudal Society to Capitalist Society. Human society constantly develops and constantly progresses. Slave Society is more advanced than Primitive Society, as Feudal Society is more than Slave Society, and as Capitalist Society is more than Feudal Society. Socialist Society is not only more advanced than Capitalist Society, but is an intrinsically different society to those of the previous eras. What ultimately distinguish socialism and the communist system from the capitalist system are their objective principles that cannot be affected by personal whim. Historical educational material must clarify these objective principles and instruct students on the principles of societal development, thereby furthering students' future prospects.

This excerpt emphasises "objective principles" based on the classical Marxist

theory of the stages of development. At the same time, we must be aware of the fact that China, which has adopted socialism based on these principles as national policy, by maintaining the hypothesis of the stages of development of human history in terms of a linear process, consequently sees itself at the very forefront of this process.

Issues to be included in discussions of world history are also decided according to this theory of the stages of development. In order to clearly present world history to students in terms of "the process of development of human society," the document indicates the need for "selective discussion" and lists the following four areas as meriting careful consideration:

- 1) The economic conditions and changes therein of each stage of societal development must be clearly explained.
- 2) Certain periods and certain countries or regions that have played a major role in the historical development of humanity merit detailed discussion. Other events may be discussed briefly or not at all.
- 3) Circumstances surrounding the invasion of Asia, Africa and Latin America by the West European colonialist nations following the development of new shipping routes; the contests between colonialist and imperialist powers for colonies and world supremacy; and the battles against colonialism and imperialism by the colonial and semi-colonial subjects together with their achievement of national liberation must be clearly and systematically explained.
- 4) The birth of the proletariat, the proletariat struggle against bourgeois control, and the birth of Marxism and its relation to labour movements deserve focused discussion.

The distinction between "certain periods and certain countries or regions that...played a major role" and those that did not is one that logically follows from a foundational perspective of the history of humanity and a supporting framework as defined by the stages of development. The history of humanity is hence hypothesised as unified and as progressing in a straight line.

This is clearly evident from the index of *World History*, the world history textbook used in Chinese middle schools (*World History* is divided into two volumes and studied over the course of one year, one volume each semester). Capitalist society, which proved to be the womb that gave birth to socialism, took shape during the modern era in the West. Consequently, while the



historical significance of the modern era in the West is emphasised, the history of non-Western countries and regions, apart from that of China itself, is not generally recognised as having "played a major role."

The view of history that suggests Western or West European history as comprising the mainstream of world history was also often evident in the history textbooks formerly used in Japan, and perhaps there even remain traces of such an outlook in current editions. However, an extremely interesting feature of history textbooks in socialist China, is the fact that being organised according to the principle of historical materialism, while incorporating a definite anti-Western slant derived from the emphasis on anti-colonialism and anti-imperialism, they consequently paint a picture of world history that is to a large extent centred on the West.

Naturally, this leads to a somewhat anomalous portrayal of Chinese history in the context of world history thus defined. China today is, of course, a world power, and has made a particularly significant contribution to the history of humanity as a whole over the course of its long pre-modern history. This is clearly evident from ancient China's cultural heritage. While world history as a whole is viewed through the prism of the theory of the stages of development originating in the West, pre-socialist Chinese history itself is treated somewhat differently in the Chinese textbooks. Moreover, China's historical and cultural contribution is taught with a view to instilling patriotism in students.

This is illustrated in sections dealing with advanced cultural achievement, the progress of science and technology, and inventions in the *Chinese History* that we translated, by the inclusion of countless descriptions of the earlier development, more substantial content, and higher quality of Chinese goods in comparison with similar Western products. The fusion within one historical outlook of, on the one hand, an emphasis on the contribution of ancient Chinese civilisation and, on the other, a conception of history in terms of the stages of development, would seem to indicate a fundamental complexity in Chinese historical education that merits further research. This is true not only in the Chinese context but also insofar as similar complexity can be discerned in Japanese historical education *vis-à-vis* so-called Asianism, and in other countries world-wide.



Conclusion

The trend towards a revised and nationalist view of history in Japan as expressed by the history textbooks published by Fuyosha, although related controversy has simmered down somewhat, is nevertheless spreading through society at the grass-roots level. This nationalistic emphasis perhaps has its origins in the instability and uncertainty of present-day Japanese society. It is possibly due in part to the new conflicts and tension caused by the greater numbers of foreigners being accepted into society as well as the fact that prolonged economic recession is restricting the scope of social dynamism. As a result, some attempts are being made to reinvigorate a sense of collective Japanese identity at a more emotive level by, for example, reinterpreting history. Will such efforts affect Japan's future in Asia positively or detrimentally? If one understands co-operative relations with the countries and regions of Asia as indispensable to Japan both now and in the future, it must be surmised that the latter is more likely.

It seems that there are also changes underway involving policy on historical textbooks in China and Korea. In Korea, changes have been made to the prior system where the state decided on and supplied one kind of textbook, such that there is now increasing choice available. In China, the draft for a revised version of the "General Rules for Historical Education" according to which the fundamental content of history textbooks is determined was released in autumn 2000. Based on this, work has begun on drafting a new textbook to be used in the future, the educational content of which is currently under discussion. Details have not yet been made public; however, it is possible that the textbook will focus not only on political, social and economic development *vis-à-vis* both Chinese and world history, but also on cultural history. Such a shift would potentially result in subsequent textbooks playing down the fundamental and mechanistic application of socialism and presenting a more reserved discussion of the stages of development theory, in favour of greater emphasis on cultural history.

Indeed, one can discern a trend towards partial changes in portrayal in new textbooks used recently in China. A focus on cultural history, however, includes the possibility of increased emphasis on national culture. In the case of Chinese historical textbooks, it may mean yet more involved discussion of the contribution of ancient China to world history. The issue of nationalism as it relates to historical education is present throughout Asia in various forms and with various implications. While recognising these variations we must, at the same time, work towards establishing a common agenda. □

ISS Contemporary Japan Group at the Institute of Social Science, University of Tokyo

The ISS Contemporary Japan Group serves as a forum for researchers on Japan to receive critical feedback on their work. Researchers visiting Tokyo are invited to contact one of the persons listed below if they would like to make a presentation. Meetings are open to everyone. Please contact Professor Ishida Hiroshi (ishida@iss.u-tokyo.ac.jp) or Sugino Haru Masako (suginohara@iss.u-tokyo.ac.jp) for more information.

Corporate Governance Reform: Globalization and Institutional Change in the Japanese Economy

Christina Ahmadjian

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April 23, 2002



"Corporate governance" is a hot topic in Japanese business today. While some Japanese firms have embraced "corporate governance," shrinking boards of directors, and the introduction of independent directors and market-based compensation, others have done little, claiming that such "U.S." practices are inappropriate for Japan. Whether corporate executives are for or against corporate governance reform, all seem to agree that globalization, combined with the ongoing stagnation of the Japanese economy, are causing firms to rethink traditional business practices.

Corporate governance reform in Japan provides an interesting case study from which to better understand the pressures for and against institutional change in the Japanese economy today, and to assess the degree to which Japanese business practices are converging to some sort of global standard. In her presentation, Professor Ahmadjian discussed the process of corporate governance reform in Japan, based on extensive interviews with senior managers, government officials, and investors, and on analysis of the effect of foreign shareholders on Japanese business practices. The focus of the presentation was on the process of change, rather than whether or not Japanese corporate governance should change, and on how external pressures for change are interacting with existing institutions.



Professor Steinmo

The Political Economy of Redistribution: Tax Policy in Japan

Andrew DeWit

Associate Professor, Department of Economics, Rikkyo University, and

Sven Steinmo

Associate Professor, Department of Political Science, University of Colorado

May 21, 2002



Professor DeWit

The past decade has witnessed much controversy concerning the Japanese fiscal system, particularly the role of income tax. While some observers argue that Japanese income tax is grossly unfair to low and middle-income taxpayers, others insist that it is the most progressive in the industrialized world. Indeed, many critics claim that it is too progressive, and some even denounce it as "socialist." What is sorely lacking is a less tendentious account that places contemporary Japanese taxation, and the larger fiscal system, in a comparative and historical context. Professors DeWit and Steinmo's presentation offered precisely this. They argued that fiscal Japan's distinctive feature is neither highly redistributive income taxation from the rich to the poor nor vice-versa. Rather, they maintained, Japan stands out for the scale of its interregional redistribution and the debilitating politico-economic incentives that stem from it.

The Late Professor Hashimoto Juro and Japanese Studies at Fudan University

Zheng Lizhi

On the 15th of January this year, our esteemed colleague Professor Hashimoto Juro of Hosei University, formerly a professor at the Institute of Social Science (*Shaken*), University of Tokyo, who served both as a consultant professor to Fudan University and as an honorary member of the board at the university's Centre for Japanese Studies, suddenly passed away. We at the Centre for Japanese Studies, Fudan University, were all deeply distressed by this sad news, and many memories flashed through our minds of the friendship and support we had received from Prof. Hashimoto over the course of the preceding twenty years.

Our relationship with Prof. Hashimoto goes back to the beginning of the 1980s, when I was a visiting foreign researcher at *Shaken* and participated in a study group with Prof. Hashimoto. Once a month, when the seminar finished late in the evening, we would walk down Hongo-dori, take the Marunouchi line from Hongo San-chome, and bid each other farewell at Ocha-no-mizu Station. At the time, Prof. Hashimoto was also teaching at the University of Electro-Communications (*Denki Tsushin Daigaku*), and I remember well our frequent discussions about the development of technology.

Ten years later, the Centre for Japanese Studies was established at our university in the early 1990s. One of the Centre's aims was to hold an international symposium once a year. Prof. Hashimoto attended the very first symposium with four other professors from Tokyo, and presented an excellent paper. This was to prove the first stone laid in the foundation of a close and lasting relationship between Prof. Hashimoto and the Centre. It was not long after this that Professor Ito Mitsuharu, who had played an instrumental role in the establishment of our centre and its management during the early stages, asked the then-up-and-coming academic Hashimoto whether he might be interested in taking over Professor Ito's responsibilities towards the Centre for Japanese Studies. Prof. Hashimoto willingly agreed, and for the next ten years, sparing precious time in the midst of his busy schedule, gave his full support to the Centre's affairs. Two things have remained firmly embedded in our memories from these years.

The first is the way that Prof. Hashimoto took the trouble to involve himself in each year's international symposium, from the event planning to recommending participants from Japan. As a result, we have managed to secure the attendance of both prominent academics and individuals with considerable administrative experience in the relevant field. Recently, this



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The late Professor Hashimoto Juro

The Late Professor Hashimoto Juro and Japanese Studies at Fudan University *continued*

has cumulated in several successive symposiums being attended by participants with experience at vice-ministerial level in the Japanese government such that, from the point of view of combining theory with reality, the quality of the symposiums has been greatly enhanced. Prof. Hashimoto's role in this regard was indispensable. Further, Prof. Hashimoto has attended eight of the eleven symposiums held thus far and, by presenting papers, chairing sessions, participating as discussant, and selecting the most excellent papers, contributed energetically to the symposiums in a number of capacities.



The author and Professor Hashimoto in China

Secondly, we are very much obliged to Prof. Hashimoto for his assistance in arranging our annual field research in Japan. The greater part of our surveys was made possible thanks to his tireless efforts.

Prof. Hashimoto also once, at our request, taught a three-week intensive lecture course at the Fudan University Faculty of Economics. Further, we at the Centre for Japanese Studies translated into Chinese and published his *Japanese Economic Theory: the 20th Century System and the Japanese Economy* (*Nihon Keizairon—20 Seiki Shisutemu to Nihon Keizai*: Kyoto; Minerva Books, 1991) and his jointly-authored *The Contemporary Japanese Economy* (*Gendai Nihon Keizai*: Tokyo; Yuhikaku, 1998). Prof. Hashimoto was keenly interested in China's economic development and, when he was in China for symposiums and lectures, would use all his spare time conducting economic

and social surveys in Shanghai and the surrounding areas.

Through such activities, Prof. Hashimoto came to enjoy a high standing among China's Japanologists, and made a great many friends, particularly at our Centre, all of whom would look forward to meeting him on his yearly visits to Shanghai. In the New Year's greeting card we received from him at the beginning of this year, Prof. Hashimoto wrote complaining that due to complications with his health, he was having to cut back on alcohol and exercise, but that he was looking forward to joining us at the symposium at the end of April. Sadly, this proved to be our last communication.



Professor Hashimoto speaking at the Centre for Japanese Studies, Fudan University

That such "geniuses die young" (*eisai sôsei*) is deeply regrettable. We hope to honour Prof. Hashimoto's memory by our continued commitment to the work of the Centre for Japanese Studies to which he devoted so much energy, and by increasing our efforts *vis-à-vis* Sino-Japanese academic exchange.

We can no longer see Prof. Hashimoto, but we will be reminded of him as he was by the blooming every spring of the double cherry blossom that he and four others planted at the Centre when he attended our first international symposium.

May he rest in peace.

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