PRESS RELEASE

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Regional economic ambitions of China and Japan show striking parallels

According to Coface, China and Japan are becoming competitors for trade and investment in the Asia Pacific region. Coface's report, entitled "*Clash of the Titans: China's rise fuels competition with Japan's interests in Asia*", reveals that, while Japan retains its advance in terms of investments, China remains the 'King of Trade'. Nevertheless, growing Chinese investments could eventually pose a threat to Japanese corporate interests in the region.

Trade & investment: competition developing between Japan and China

Japan and China are not only net commodity importers from Asia, but also major importers of mechanical and electronic parts and components which are processed into higher value-added goods for export. This is due to the fact that both countries are also important players in global value chains, especially in terms of electronics. Not surprisingly, their top three exports to Asia are identical - namely electrical machinery & equipment, steel products and machinery & mechanical appliances. China has managed to leap-frog its way up the global value chain and this process is expected to continue. As the two countries' production structures become increasingly similar, this will inevitably spark some competition.

China's flagship *Belt and Road Initiative* promised billions of USD in infrastructure and other investments. This played a role in bolstering the expectations of Asian policymakers. Nevertheless, Outbound foreign Direct Investment (ODI, from China to the world) declined by 29.4%, falling to USD 120 billion in 2017. This is the first annual contraction in outbound investment flows since 2009. Foreign Direct Investment (FDI, from the world into China) rose by 7.9%, to reach USD 135 billion. This signifies that China returned to being a net recipient of FDI in 2017.

Although overshadowed by the Belt and Road rhetoric, Japanese companies have actually continued to make an important impact on the economic landscape in Asia. Japan has maintained the growth of its investments overseas, overtaking China to become a larger player. Coface's analysis is that Japan will remain a key powerhouse in the region for the foreseeable future, due to a number of reasons. Japan, being a mature and affluent economy, began to invest overseas much earlier than China and this has given it a strong head start in establishing its prominent role in the region. More recently, higher production costs have fueled a shift to countries with lower labour costs in South East Asia, thus enabling Japanese companies to further exert momentum and influence.

P R E S S R E L E A S E

Potential threats to Japanese corporate interests

Despite Japan's first-mover advantage in investments, Coface sees striking parallels between the two countries on the investment front and this could spell trouble ahead for Japanese companies. Chinese investments are shifting away from mineral resources towards sectors including manufacturing and services - areas in which Japan has traditionally played a stronger role. The mining sector fell from fourth to thirteenth place between 2006 and 2016, while manufacturing rose from fifth to second position. Japan remains a key player in manufacturing, but its share declined from 69% of total ODI flows in 2006, to just 35% in 2016. This is because Japan has refocused towards high-value-added services and the ICT sectors – in line with China's ambitions in the region.

Competition means dynamism and having two powerhouses in Asia could generate new business opportunities for companies in the region. Nevertheless, this also brings more uncertainties, especially for Japanese companies that are unable to step up their game.

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