CHAPTER I

INTRODUCTION

1.1. Background

International Relations or occasionally as called as International Studies is one of the broadest studies as in its massive scope and has its base in both academic and public policy field that seeks to analyze the foreign policy of the states domestically and also internationally. This study generally covers the issues and relationships between countries, including the role of states, International Government Organizations (IGOs), International Non-Governmental Organizations (INGOs), Non-Governmental Organizations (NGOs), and Multi-National Corporations (MNCs). One of the most common cases in this international study would be in accordance to foreign affairs, in which one nation will interact with another foreign nation and in this case, the most debated motion in recent global issues would be the economic down-turn and the superpower rivalry among the top world economies. One of those top world economies which has mostly discussed based on its rapid economic growth over the past years would be China.
As the matter of fact, People’s Republic of China (PRC) is the current world’s second largest economy after the United States of America, which is now called to be the emerging superpower that is undoubtedly highly influential among the other countries. China has also proven itself that they are capable in lifting out the poverty, elevating the standards of living, and generating a stable yet significant economy for over the past 30 years especially post China’s economic reform. It is also shown and proven that China is the world’s most rapid major economy which is ranging on more or less of 10% of its growth constantly every year.\(^1\) China has now participated actively and is one of the major roles of the current world’s economy. Its rapid economic growth from 1997 to 2007 has resulted a triple amount of growth in its Gross Domestic Product (GDP), which were increasing from RMB 7.9 trillion in 1997 to RMB 25.0 trillion in 2007.\(^2\) As the result, 30 years after the Chinese economic reform, China has become the second largest economy in the world after the United States and is essentially most-debated on its relationship with its closest one, Japan as in Asian region.

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In this 21st century, The United States has been widely considered as a superpower which has fulfilled the criteria of one superpower country.3 Presently, there are several countries that are mentioned to be the potential superpowers, included China. The others also include Russia, European Union, Brazil, and India. In its superpower rivalry, several predictions had been made in the past years, which is not essentially to be correct. One of them predicted that Japan would eventually achieve the superpower status, based on its influence, market, huge gross domestic product, and its economic growth by the time.4 Japan had proven to be strong by the late 1980s and had acceded to be the top donor by the year of 1989. Though, asides from China’s late economic growth compared with Japan, China had proven to establish a strong and a constant growing economy for the past 30 years, especially after the economic reform and is now emerging into one of the major economies in the world which is forced to be reckoned with.

China’s economic growth can be said as one of the fastest growing economy, along with Botswana. Botswana was one of the poorest countries in Africa back then with a GDP per capita of about only US$ 70 in 1966. Botswana then had managed to transform into a middle income

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country with a GDP per capita of about US$ 16,300 in 2011. Similarly to Botswana, when the People’s Republic of China (PRC) was established in 1949, per capita national income was only RMB 66.1. The rapid growth of China can be seen based on its Gross domestic product nominal, as these following figures.

Figure 1.1. China’s GDP and Annual Growth (2000-2009)

![Figure 1.1. China’s GDP and Annual Growth (2000-2009)](image)

Note: *GDP in trillion US dollar
*GDP Growth in percentage (%)


Since the implementation of the new economic system in 1978, it had led to a drastic change, moreover starting from the year of 1990s which included dramatic progress in productivity development and an active international trading and market. In the period between 1978 and 2003, the annual growth rate of China’s gross domestic product was 9.3 percent on average.⁷ Based on another data, China’s economy grew by an

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average of 9.9% in the year between 1993 and 2004. Thus, China has become the country with the highest economic growth rate in the world. While, the average annual GDP growth since the economic reform started until 2011 is averaging about 9.32 percent. Through the statistics from the charts, it is assured that the existence of China in the world’s economy stands strong, which its GDP is now amounting $6.989 trillion from the year 2011 estimation. The continual praises by the academics and experts on how well China has been doing in its military superpower and the presumption on China as the emerging superpower country may have come true, if it is based on its exquisite and constant growth through years.

The economic development of China can be divided into 5 phases. First, is the economic recovery from 1942 until 1952, where the government tried all the efforts in controlling severe inflation, increasing employment opportunities, and lifting up the living standards. Second, is the socialist reform of industries and commerce, in which all the industrial and commercial enterprises that were owned by the private sector would be altered into publicly owned enterprises.

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Third, is the Great Leap Forward movement from 1958 until 1965 that was an economic campaign of the Communist Party of China that aimed the country from an agrarian country into a modern communist society through industrialization. This phase was undergone in a not positive note. The movement of forcing the farmers to join rural communes violated their rights and by the time, the agriculture products had suffered. As the consequences, it did not impact only towards the economy that had plummeted so low, but as well as famine and death. The death that was occurred was not only caused by famine and hunger, but there were also deaths by violence that had at least 2.5 million people beaten or tortured to death and 1 to 3 million people committed suicide.11

Fourth, is the Cultural Revolution from 1966 through 1976. It was stated that the goal was to enforce the socialism in the state by annihilating capitalist and imposing the Maoist orthodox, which returning Mao Zedong to an absolute power position. However, by the end of this phase where Mao Zedong was died in 1976, most of the economic problems were still remained and there were still million of farmers lived in poverty. While, the Fifth phase is the economic reform period from 1978 until now.

As was described previously, it is certain that China’s journey to the top world economy was a long winding road that was done since more than 30 years ago, even before the 1978 economic reform. The reform initiative of the socialist economic system in China had been commenced more than fifty years ago since the Mao era in 1956.\textsuperscript{12} China’s dramatic reform in its economy and government institutions is said to be caused by the policies taken by the state leader Deng Xiaoping. He was a Chinese politician and diplomat that was purged during the cultural revolution on Mao era. However, he regained the prominence in 1978 after Mao’s death in 1976. He then reformed the fraction of the Communist Party of China (CPC), bringing China back from the devastation of the cultural revolution and led China from the traditional system of a centrally planned economy to a \textit{socialist market economy} with Chinese characteristics.

The socialist market economic system in China is a mixed market economy that is different with the previous centrally planned economic system that has the big banks, industries, and commercial enterprises owned by the state. The socialist market economic system consists of a mixture of both private sector and State Owned Enterprises (SOE). In its evolution of China’s reform strategy, it basically has 3 major stages.\textsuperscript{13} 

\textit{First} is year 1958 through 1978, where the administrative decentralization

\textsuperscript{13} \textit{Ibid}. Page. 43.
was occurred in which the central government transferred power to the governments at lower levels and shared the profit with. Second is year 1979 through 1993, in which an incremental reform was implemented by giving the first priority to the outside of the system and focusing on the private sectors’ development. Third is the year 1994 to present, where China establishes a socialist market economic system to date.

PRC’s dramatic rise from poverty has given a marvelous impacts for the emerging and developing economies, especially in Asia. Though, the views from the Asian countries on China’s current economy are ambivalent, or hitting a mixed reviews. China’s rise is not only arousing the anxiety of the Japan, but also the world. There has been a concern that China is currently becoming the major power in Southeast Asia. Not only the southeast region, as the matter of fact, China has now replaced the United States as South Korea’s largest foreign market.14 Aside from the United States, China has gained contradictory views from countries like India, Rusia, and France, or some on relatively neutral such as Poland.15 Nevertheless, China has basically obtained an ample positive views from the Southeast region, especially Vietnam and Thailand. However, as a comparison among China and Japan, each country has different competing value of influence and impression from the world, or especially in Asia.

Japan as the matter of fact, had stood strong by the years way before China and its rapid economic growth. However, in post cold-war, in 1990s, the collapse of Japan’s economy caused by the economic bubble which occurred gradually, started to destroy its economy slowly but certain. Japan is also said to be in the Lost Decade, which is referred to the year 1991 to 2000 where the economy went slow after the massive boom in 1980s. Nevertheless, Japan still manages to prove that they are still one of the prominent countries or the major economy especially in Asia Pacific and Southeast Asia. In relations with China, Japan can be said to share a very good partnership with China, in which China is the most important trade partner along with the United States, and followed by South Korea, Taiwan, Hong Kong, Singapore, Thailand, and Germany.

It is obvious that the relations between China and Japan is pretty strong, especially in trading and investment. While the biggest Japan’s export partner is China, followed by the United States, South Korea, Hong Kong, and Thailand, Its biggest import partner is also once again China on the lead. It is also followed by the United States, Australia, Saudi Arabia, UAE, and South Korea. The relations between China and Japan are so called to be complex and important especially in this era. Therefore, it is one of the most-fitted international issues that is most attractive to be ventured out with. On the other hand, China’s top trade partners can be seen through the following table.
Table 1.1. China’s Top Trade Partners (2010)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country/region</th>
<th>Volume</th>
<th>% change over 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>385.3</td>
<td>29.2</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>237.8</td>
<td>31.8</td>
</tr>
<tr>
<td>3</td>
<td>Hong Kong</td>
<td>233.6</td>
<td>31.8</td>
</tr>
<tr>
<td>4</td>
<td>South Korea</td>
<td>207.2</td>
<td>32.6</td>
</tr>
<tr>
<td>5</td>
<td>Taiwan</td>
<td>145.4</td>
<td>33.9</td>
</tr>
<tr>
<td>6</td>
<td>Germany</td>
<td>142.4</td>
<td>34.8</td>
</tr>
<tr>
<td>7</td>
<td>Australia</td>
<td>88.1</td>
<td>45.5</td>
</tr>
<tr>
<td>8</td>
<td>Malaysia</td>
<td>71.2</td>
<td>43.0</td>
</tr>
<tr>
<td>9</td>
<td>Brazil</td>
<td>62.5</td>
<td>47.5</td>
</tr>
<tr>
<td>10</td>
<td>India</td>
<td>51.8</td>
<td>42.4</td>
</tr>
</tbody>
</table>

Source: PRC General Administration of Customs, China’s Customs Statistics

Note: Volume in billion US dollar.

In the past few years, the academics and critics had made several predictions about the future of China and Japan, and its superpower rivalry and either their partnerships in the following years. The presumptions that quoted that China will surpass the United States by the year of 2016, 2020, or even much further years ahead must have been a trigger for China to be more effective in its economic development. However, the phenomena in the partnership and rivalry in Asia between China and Japan and their influences towards the other countries in the region and the world is one of the prominent issues to be dealt with beforehand, in which that China and Japan currently have a major role in maintaining the world peace and economic stability in the world. By seeing how China’s economy has been catching up lately with a constant high annual economic growth, the future ahead will basically depend on both countries, Japan and China.
1.2. Research Questions

The economic future of one country is not determined through one’s history. If the future is held by the history, China would have been still in misery, stuck by its pre-1978 poverty, famine, and doleful economic growth in Mao’s Great leap forward and cultural revolution era. If the future is held by the history, then the United States would still be the superpower or perhaps a hyperpower since it has been succeeded economically for more than a decade. The influence would have been extremely solid and dominant across the countries if it is so. And of course if the future is determined by history-wise, Japan might have been the emerging superpower or perhaps the world’s largest economy presently. Nevertheless, in fact, Japan’s rising economy starting from its pre top donor phase in 1954 has hit out to a 20 years of economic stagnation and liquidity trap in the late 1990s.

In fact, in any discussion on top economy and trading, it transpires that Japan would be the country who is most likely to be dragged down in the polemic of China. It is because Japan and China are those two Asian countries that were considered as the threats that may have made a great leap through the economy of superpower United States. It is not a secrecy that Japan had been predicted to be one of the upcoming emerging superpower, alongside the top power America in the past years. Nevertheless, after three decades of a marvelous growth, China had finally passed Japan’s economy which was in the second position since 1968, and
was leaped by China in the second quarter of 2010 and currently as the world’s second largest economy behind the United States. According to Wang Tao, an economy at UBS in Beijing, he said that the current condition of China is just the beginning. China is said to be an emerging country that would still have a lot of room to grow. Yet China has the biggest commodity prices in Russia, India, Australia, and Latin America.16

As China is now enjoying the manufacturing boom or economic trend, Japan has basically hit the rock bottom, taking a notch down in its exports and also demand. As Japan’s industry is slowing down compared with the years previously, China is currently Japan’s main trading partner. China is prominent especially to the enterprises such as Sony, Honda, or Toyota. The fact is that there are numerous of Japan’s products that are now made in China on their labels. The economic gap is also strengthened and reassured by looking the statistics in both GDP as in the current official exchange rate, its purchasing power parity, and also its current real growth rate, in which China is enjoying its plus figures while Japan is undergoing a rough time in its economy especially on post-cold war.

China’s leadership and its current economic condition has contrived many reasons for Japan to be anxious about. In Asia, China-Japan current position ironically can be called as an either ineluctable

partners or rivals. This would mean that the existence of China in the eye of Japan is a burden to be draped or perhaps on the contrary.

China as a leading pillar along with the United States, it holds about a fifth of the world population of nine billion and its economy is one third of the world’s. Taking a look back on the past years, it is astonishing on how it transited through a thin line that Deng Xiaoping was putting, and somehow now had created an enormous yet successful economy of a strong state. By this, China also has to prove itself that China can sustain its economic growth for a long run. As the relations shared between China and Japan are getting more complex in its real application, the true phenomenon and the strings attached between both countries are the questions to be answered. Based on the descriptions above, the writer can conclude one major research question that the writer identified in this writing, and this study aims to answer the following:

How does the rapid economic growth of China affect the relationship with Japan especially over the period of post-cold war (1991-2011)?

In this research question and for its further analysis, the writing is mainly focused and limited to the economic relationship between China and Japan and as for the period of time, it will focus on 1991 to 2011.

1.3. Objectives

This thesis aims to generate significant following research questions as the response towards the problems that are previously described. The objectives of the thesis are achieved when the writer is able to answer all the research questions and draw a conclusion on the solved problems. Some of the objectives of the study are as following indicators:

1. To describe and ascertain the reasons that triggered the rapid economic growth of China for the past years after the economic reform and more specifically on post-cold war in the early of 1990s until recently.

2. To describe the following impacts of China’s rapid economic growth in its own country and towards Japan, whether it is in the industry, technology, cultural influence, trading and foreign direct investment, specifically in the period of 1991 to 2011.

3. To describe the reasons of Japan’s economic slip, which previously had been reckoned as one of the highly anticipated emerging potential superpower.

4. To ascertain the process on how China overtakes Japan as the world’s second largest economy and its relations between both countries in the superpower rivalry.

5. To describe the relationship between China and Japan, whether it is more into cooperation, competition, or conflict.
1.4. Research Purposes

Through the process of this social research, the writer hopes that through this writing, there would be benefits that can be taken, which includes as follows:

A. Academic use

The writer hopes that this research can be held as well as a fairly accurate source of information and foundation for the other researchers on their study in relation to the political economy issue of China’s rapid economic growth and its following impacts towards Japan and the superpower rivalry on post-cold war. In addition, the research is expected to describe systematically on how China boosts up its position and how it achieves its economic boom until recently.

B. Practical use

Through the process of writing, the writer hopes that the skill in writing and making a case analysis, combined with the knowledge and information that have been given throughout the years during the study period can be conducted at its best or being well practiced. As for the future, this research is expected to be a reliable reference and source of information for the development of the future economy of the other emerging countries that will probably learn the best from both Japan and China’s economic practice, on how to boost one’s economy and how to avoid the possibility of an economic meltdown and conflicts.
1.5. **Systematic of the Writing**

Throughout the study in this research, all elements are compiled systematically and in accordance to the established rules of the basic thesis guidelines. The aim is to make the writing to be neatly arranged and easy to understand. The systematic used in this thesis can be explained as follows:

1. **CHAPTER I INTRODUCTION**
   1.1 Background
   1.2 Research Questions
   1.3 Objectives
   1.4 Research Purposes
   1.5 Systematic of the Writing

Chapter I is the early explanation of this research and consists of general information of the study, based on the topic. This chapter contains the basic design of the writing or thesis, which consists of Background, Research Questions, Objectives of the study, the Research Purpose, and the systematic of the writing that will be then used as the base of the main problem on the next chapter.
2. CHAPTER II THEORETICAL FRAMEWORK

This chapter contains a description of conceptual definitions and relevant theories related to the issue discussed. In addition, it will also explain several concepts and theories that will strengthen the bases towards the main problem. This chapter will basically help to explain and answer the Research Questions in this research. Explanation of the theories and concepts in depth is expected to help the writer to analyze and respond more effectively to the formulation of the research questions based on the theoretical foundations, so that the result of the research can generate an eligible and reliable hypotheses which are supported by the valid and significant data sources.

3. CHAPTER III RESEARCH METHODS

This chapter contains a description of the methodical approach, technical data types and sources, data accumulation technique, validity of the data, engineering data analysis, and other matters related to the research conducted. The objective of this chapter is to make the readers know the study objects and its truth.
4. **CHAPTER IV ANALYSIS**

Chapter IV is one of the most important parts of the research because the study object will be explained in details and it also contains analysis towards the study object. In this chapter, the writer will elaborate all the data accumulated, such as primary sources, books and literatures, interview, and many others in relating the problems and answering the Research Questions stated in the first chapter. This chapter contains the exposure to the result of research and discussions on the issue, in which will include the economic dilemma of China, the following impacts of China’s rapid economic growth in its own country and towards Japan, whether it is in the industry, technology, energy, cultural influence, trading and foreign direct investment. This chapter will also include the discussions and answers for the hypotheses.

5. **CHAPTER V CONCLUSION AND RECOMMENDATIONS**

5.1 Conclusion

5.2 Recommendations

This chapter contains the reaffirmation of the problem and brief analysis as a form of answers from the existing questions and problems. In this Chapter V, there will be conclusion of all the answers from the questions as in the research questions and also suggestions or recommendations towards the study object in the research.
BIBLIOGRAPHY

Bibliography as a practice, is the academic study of books as physical which consists of detailed information. This section will not be concerned with the literary content of the books but rather the sources of the books. This section contains the list of books and reliable resources that are used as in the research of the study. It may also contain journal articles and electronic media sources such as websites.

APPENDIX

Appendices contains any addition to a document, such as other documents or other references, letters, photos, or interview transcript that are used in supporting the writing. It may also contain information that is important for the comprehensiveness of the research and the writing.