

As Japan's economy struggles, China steps up

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By **Kathy Chu**, USA TODAY



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An influx of Chinese shoppers is "good for Japan," says Tokyo resident Ayako Takahashi, 26, seen here in Tokyo's luxury Ginza district.

TOKYO — The neon-lit streets of Akihabara, Tokyo's famous electronics district, beckon shoppers with iconic Japanese brands such as Sony, Panasonic and Toshiba. They symbolize what people here refer to as *monozukuri*, the Japanese art of manufacturing. But increasingly, the electronics on display come with this disclaimer: Made in China.

At Yodobashi Camera, one of the largest electronics stores in the area, businessman Tadashi Higuchi peruses digital frames during his lunch hour. When asked his opinion of Japanese products made outside the country, he turns over the frame he's holding, then responds with his own question: "Really, this is made in China?"

Higuchi, 60, says the "Made in China" label bothers him because it's so small, "as if they're hiding it." Even so, he adds, "If it's the only way for Japanese companies to survive, it's OK."

It's a reversal of fortunes for **Japan**, once known for low-cost goods from electronics to cars. After **World War II**, Japan parlayed this reputation into an obsession with product quality that fueled the economy's meteoric rise. But as its economy has sputtered over the years, it has outsourced production of a wide range of Japanese-branded products to the world's rising powerhouse, China.

Last year, China became the world's second-largest economy — behind the United States — overtaking Japan, which had held that ranking since 1968. China's rising influence can be seen not just in the goods for sale in Tokyo, but across Japanese society: Chinese investors here are snapping up real estate and setting up homes and businesses. Its foreign-exchange students are flocking to Japanese universities. Chinese tourists also are arriving in greater numbers, boosting Japan's sagging economy with their spending.

The China-fication of pockets of this proud and nationalistic society is as much a tale of Japan's decades-long stagnation as it is of China's rise. This shift in power brings economic, social and cultural implications for Asia, the USA and the rest of the world.

For one, China's rapid rise means "the Japanese can't take it for granted that they'll remain dominant in any field, including technology," says Eswar Prasad, a senior fellow at the **Brookings Institution**, a think tank in Washington, D.C. The same holds true for other nations, such as the USA, Prasad adds.

"All eyes are on China as it takes second place," notes Daniel Rosen, a principal at Rhodium Group,

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an economic advisory firm. "Yet, there remain very serious questions about (how much) the rest of the world benefits from China's growth."

As China has grown, it's exercised its increasing political clout — at times, to the alarm of other countries. In disputes this year with Japan and Vietnam, China reasserted a longstanding and controversial claim to potentially resource-rich islands in the South China Sea. It's also angered its neighbors in appearing to side with North Korea after that nation's military apparently sank a South Korean vessel last March, and has done little to ease rising tensions stemming from North Korea's shelling of South Korea's Yeonpyeong Island in November.

Yet, by certain key measures, China lags behind other superpowers.

Its per capita gross domestic product is still low — about \$4,000 vs. \$42,000 in Japan and \$47,000 in the USA — meaning on average, its residents are much poorer than those of other nations.

"China is big, but not necessarily strong," says Han Qi, an economics professor at Beijing's University of International Business and Economics.

Also, the country's rise generally hasn't spawned cutting-edge technology or product innovation.

"Imitation is much easier, innovation is more difficult," says Wang Tao, UBS' chief China economist. "It's going to be decades before China catches up."

Buying Japanese firms

China has influenced Japan for thousands of years, in areas from language to culture.

"What's new now is the abruptness and a sense of change," says Devin Stewart, senior program director at Japan Society in New York. "Things are changing so ridiculously fast in China that the change is apparent in Japan."

Japan's economic troubles also mean it's "more in a position to be influenced," says James Farrer, a sociology professor at Tokyo's Sophia University.

In Akihabara, this influence can be seen in the growing number of Chinese tourists who gather to buy Japanese-branded appliances and computers. Even if the products are made in China, shoppers

prefer to get them in Japan, so they can "be sure they are authentic," not fakes, says Shuntaroh Otaki, 24, a manager at Pockets Plus One, an electronics store where 30% of customers are Chinese.

A block away, the Laox electronics store boasts an even larger Chinese clientele — up to 70% of its customers are Chinese — because of the shop's ties to the mainland. Chinese appliance giant Suning became the troubled Japanese company's largest shareholder in 2009, and is looking to boost its stake further.

The trend of cash-rich Chinese investing in or acquiring Japanese businesses is on the rise. In 2009, Chinese companies bought 19 Japanese firms in deals valued at \$546 million, according to Dealogic research firm. This compares with four deals worth \$316 million in 2006.

In Tokyo's Ikebukuro district, the closest thing this city has to a Chinatown, more than 200 businesses are now Chinese-owned, although that represents a minority of the shops here. Some businesses were acquired from Japanese owners, while others were start-ups.

The neighborhood's rapidly changing landscape — Chinese grocery and book stores nestle alongside sushi restaurants — has sparked tension between Japanese and Chinese residents. Two years ago, when Chinese businessmen tried to promote what they called "Tokyo Chinatown Ikebukuro," Japanese shop owners objected to the characterization of the area as Chinese.

The tension is gradually dissipating as Chinese and

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Japanese business owners get to know each other better, according to Jiang Feng, founder of the *Japanese New Generation Overseas Chinese Newspaper*, which circulates to 90,000 residents, most of them Chinese.

But residents worry that problems could flare up again as the Chinese population grows. More than 417,000 foreign residents, the largest proportion of which are Chinese, live in Tokyo, 1.5 times more than 10 years ago, according to the Japanese government. Although foreigners still make up only 3% of Tokyo's 13 million residents — a fraction of other cities' foreign populations — the changing demographics have been noticeable in Japan's traditionally homogeneous society.

Many Chinese come to Japan as foreign-exchange students, then get jobs at small- to medium-size Japanese firms, according to Gracia Liu-Farrer, an associate professor at Waseda University in Tokyo. These workers "build economic bridges between China and Japan," she says.

By the same token, "in terms of prosperity and benefits, Japanese residents here cannot live without relying on Chinese businesses," says Jiang, a founder of the Tokyo Chinatown Committee.

Back at Laox, the Chinese investors have given the store a new mandate. To attract customers from the mainland, the store is employing more Chinese-speaking staff. It's advertising itself as having the largest selection of duty-free items in the neighborhood. And it's tweaking its product lineup.

On the fourth floor, high-end rice cookers now take up some of the prime retail space near the escalators that Laox once devoted to digital cameras.

"People coming from China already have a good digital camera, but they don't have a Japanese rice cooker," says Kimiaki Tsuchiya, a Laox manager, as he demonstrates how the five layers of a Tiger rice cooker allow heat to evenly flow through the pot. The Japanese-made rice cooker comes with a steep price tag, nearly \$450 U.S. (36,800 yen), but it sells well because "everybody has the mindset that Japanese products are the best quality," Tsuchiya says.

Other items popular with Chinese shoppers: nail clippers made using Japanese sword-sharpening technology, and toilet seats with heating and washing functions. Some of the Japanese-branded

toilet seats are made in China, but in Tsuchiya's opinion, that doesn't affect their quality.

Customers are more skeptical.

"We explain that it's made by a Japanese company, so it's OK," he says. "People are still confused."

The Japanese government has encouraged companies to adopt a "China plus one" strategy: Manufacture some goods in China to keep costs low, but diversify elsewhere as well. Sony, one of Japan's leading brands, seems to have taken this advice to heart. Just under 20% of Sony's electronics are now made in China, 50% in Japan, and the rest in Europe, the Americas and other parts of Asia.

Important to 'show off'

As the spending power of China's 1.3 billion consumers increases, it's leading to a global shift in how products are created and marketed.

For example, China is increasingly becoming retailers' first stop for product launches in Asia, sometimes even in the world, says Jennifer Tsai, executive director of Greater China for market-research firm [Synovate](#).

In Tokyo's luxury Ginza district, the Chinese are such prolific spenders that Japanese department stores such as Matsuya and [Mitsukoshi](#) print Mandarin-language maps, brochures, even magazines.

The influx of Chinese shoppers is "good for Japan," says Ayako Takahashi, a real estate broker in Ginza.

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"I welcome them."

While the Japanese still embrace a culture of shopping — Takahashi, 26, goes shopping for clothes, bags or shoes about four times a week — Japan's economic stagnation has eaten into consumers' savings. It's also sped up a change in attitudes toward luxury goods.

Many Japanese "do not want to show off anymore," says Yumi Matsumura, a Tokyo-based researcher for Synovate. "People want to be more discreet in terms of the design and the brand logo."

Wataru Inaba, 29, is part of a growing generation of Japanese consumers who pride themselves on individuality. He generally wears clothes from designers known more for their quality than their name. "I don't care about the brand, but the color and the style," Inaba says.

This attitude stands in stark contrast to many Chinese who, with their newfound spending power, are snapping up brand-name luxury goods, wines, TVs and cars. For them "quality is not as important," according to Tsai. "The most important thing is to show off. The more expensive, the better."

For now, Japan remains the largest luxury goods market in the world. But China is likely to overtake Japan by 2018 in overall spending on items such as jewelry, handbags and watches, according to a [Goldman Sachs](#) research report in June.

Already, a middle-income Chinese consumer (earning above \$30,000 a year) spends more than a Japanese consumer on luxury goods. This group will help drive growth in the luxury goods market, Goldman Sachs' research shows.

Well-known Asia economist Andy Xie, in a piece last year for Chinese business publication *Caixin Online*, summed up the power of China's middle class in writing that, "Chinese tourists go in groups, stay in cheap hotels, eat instant noodles and then spend 10,000 euros on (a [Louis Vuitton](#)) bag."

The fact is, whether it's the luxury market or GDP, "being surpassed by China is a sign that things aren't going to get back to where they were for a long time," if at all, says Richard Samuels, founding director of the MIT Japan Program at the [Massachusetts](#) Institute of Technology in Cambridge, Mass.

It's a reality that nations around the world will have

to face as China's sway in global business and politics becomes apparent.

"Size matters greatly, and China has begun to exert a major influence on the global economy," says Prasad, former head of the IMF's China division. Its "words and actions matter more than ever."

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