

Japan-China Relations: From Precipice to Promise

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Japan's relations with China entered the last quarter of the year still reeling from the aftershock of Japanese Prime Minister Koizumi Junichiro's Aug. 13 visit to the Yasukuni Shrine, while the October Asia Pacific Economic Cooperation (APEC) Leaders' Meeting in Shanghai loomed on the diplomatic calendar. Further complicating the relationship were Koizumi's efforts to provide rear-area military support to the United States in its war against terrorism. The deployment of Japan's Self-Defense Forces (SDF) to the Indian Ocean and Persian Gulf region again risked resurrecting history-related issues in China and across the region.

At the same time, an on-going trade dispute, involving Japanese provisional sanctions on Chinese agricultural products and China's retaliation against Japanese manufactured goods, threatened to escalate with Tokyo setting a Dec. 21 deadline for resolution or the imposition of formal, long-term sanctions. A last-day deal allowed both sides to declare victory and to look ahead, in a spirit of cooperation, to 2002 and the 30th anniversary of the normalization of Japan-China relations.

Given the troubles of history, textbooks, and trade, which marked relations throughout much of the past year, the personal efforts of Prime Minister Koizumi and Chinese President Jiang Zemin during the October-December quarter appear to have stabilized the bilateral relationship and opened the door to a promising new year. Encouraging the efforts of the two governments are rapidly expanding private sector relationships. During the final quarter of the year, Japanese investment and industry continued to surge to the mainland.

From the Yasukuni Shrine to the Marco Polo Bridge

Since the Yasukuni Shrine visit, the prime minister had repeatedly made known his interest in meeting with China's leadership, and on Oct. 1 Koizumi announced he was prepared to travel to Beijing in advance of the APEC Leaders' Meeting. In Beijing, however, the Foreign Ministry stayed on its post-Yasukuni message that deeds – not words – were essential to improve relations. The following day, Japanese Chief Cabinet

Secretary Fukuda Yasuo told reporters that the prime minister's schedule would make a pre-APEC visit to China difficult, even as reports of Beijing's willingness to agree to a pre-APEC visit began to surface.

On the evening of Oct. 4, the chief Cabinet secretary announced that the prime minister would visit Beijing Oct. 8 to meet with President Jiang and Premier Zhu Rongji. Initial spadework for the visit began in mid-September in meetings between the Japanese ambassador and China's Vice Foreign Minister Wang Yi. According to the *Asahi Shimbun*, China set three conditions for an early visit: an understanding of history, a visit to the Marco Polo Bridge, and some indication of thinking with regard to a Yasukuni visit next year. At the same time, Beijing expressed the strong desire that the prime minister would use the words "apology," "regret," and "remorse" in his dialogue with Jiang. Doing so would make it possible to avoid reference to the Yasukuni visit and the textbook controversy.

The chief Cabinet secretary's announcement and the timing of the trip surprised the Japanese media, given the complexities normally involved in arranging such a visit. But external events were moving both Tokyo and Beijing toward an understanding. For Koizumi, Japan's response to Sept. 11 and the possibility of being cold-shouldered at the October APEC meeting in Shanghai were combining to make a meeting with Jiang a top priority. Similarly, in addition to history, Jiang also had other interests at stake – namely, the success of the APEC meeting, which would be judged decidedly less successful if Japan was not in attendance.

On Oct. 8, both after his visit to the anti-Japanese War Memorial and during his meeting with Jiang, Koizumi spoke of his apology and regret for the victims of Japanese aggression and his determination that war should not again occur. The prime minister's use of the word "*owabi*" (apology) marked the first time that a Japanese prime minister had ever used the expression with regard to the China war. The *Asahi* reported that Koizumi had previously made up his mind to use the words if he had the opportunity to visit China.

Jiang welcomed the prime minister's visit as evidence of "the will to improve bilateral relations." In this regard, he stressed the importance of "actions," such as the prime minister's visit to the Memorial Hall. This was in line with Jiang's principle of "taking history as a mirror and looking forward to the future in the handling of China-Japan relations." Jiang noted that the relationship has had its twists and turns, its ups and downs, but when difficulties arise they are invariably tied to the issues of history, such as the Yasukuni Shrine and textbooks.

Looking ahead to next August, Jiang, without asking for a commitment from the prime minister, made clear that visits to the Yasukuni Shrine would complicate relations. As for textbooks, he stressed the importance of telling the truth about the past to the younger generation. Also, with regard to the future, Jiang expressed his understanding of Japan's role in the war on terrorism and, from Koizumi's perspective at least, appeared "less severe" than he had anticipated.

Zhu also took up the issues of history texts and Yasukuni. The controversies provoked a strong reaction across Asia and suggested that Japan had yet fully to resolve issues of the past. Noting that “unless the resolution of these problems was given the highest priority,” bilateral relations “could not be fundamentally improved.” Zhu hoped that Japan would adopt a correct attitude toward the issues.

As for Japan’s response to the war on terrorism, Zhu observed that expanding the sphere of SDF activities at a time when issues related to history remained unresolved held the possibility of heightening concerns across Asia. He urged Koizumi to think very carefully about the issue. Koizumi raised the matters of China’s agricultural exports, but Zhu characterized the dispute as a “small matter” to be resolved by those directly involved.

Having served the respective needs of the prime minister and the Chinese leadership, both sides put a positive spin on the visit and moved on to the APEC meeting in Shanghai. Koizumi and Jiang met again in Shanghai on Oct. 21 and discussed plans for activities to commemorate the 30th anniversary of the normalization of Japan-China relations in 2002. Both leaders also committed their governments to an early resolution of the outstanding economic issues.

Shortly after the Oct. 8 visit, Japanese Foreign Ministry sources revealed that the visit of Li Peng, which had been postponed earlier in the year because of the downturn in relations, was again under consideration for the spring of next year. Also under consideration was a visit by Deputy Prime Minister Wen Jia Bao.

Security – The War on Terrorism

Koizumi’s meeting with China’s leadership yielded their “understanding” of Japan’s support for the United States in the war on terrorism as well as the caution that Japan proceed with great care in the overseas deployment of the SDF. Later in the autumn, during the Diet debate over the unfreezing of restrictions on Japan’s participation in UN peacekeeping operations, China’s Foreign Ministry commented that, from the perspective of history, Japanese actions in the military field raise sensitive issues and expressed the hope that Japan would act with prudence.

In a Nov. 11 interview posted on the *People’s Daily* website, Jin Xide, director of the Japan Office in the Chinese Academy of Social Sciences, addressed issues regarding Japan’s special anti-terrorist legislation, which, he observed, “signifies a major change in Japan’s postwar foreign security strategy.” While the “direct reason” for the legislation was to support the U.S., Jin explained that for a decade Japan “has tried to break out of the sacred zone that bans Japan’s dispatch of the SDF overseas.” During the 1990s Japan had adopted the UN Peacekeeping Operation Cooperation Law; revised the Self-Defense Forces Law to allow for the rescue of Japanese citizens overseas; revised the U.S.-Japan Defense Guidelines; and passed the Law for Emergencies in Areas Surrounding Japan.

The war on terrorism provided an “opportunity” for Japan to make another “major stride.”

Jin explained that the “direct” reason the legislation moved quickly through the Diet is attributable to the majority enjoyed by the three-party coalition and the lack of an effective opposition. Another reason at the level of public opinion was that the younger generation in Japan, which “is increasingly becoming the main stream, lacks knowledge about the damage caused by the War of Aggression...” That is why little effort was made “to oppose the dispatch of the SDF overseas.” He went on to say that even for the U.S., Japan’s response “has been a bit too enthusiastic” and predicted that its “rush” to deploy the SDF overseas will have “a great impact on regional stability” and cause Japan’s neighbors “to react.”

Jin did not touch on the relationship of the SDF deployment to Japan’s Constitution. A month later, China’s Foreign Ministry displayed no hesitation. During consultations in Beijing on Nov. 21, Chinese diplomats told their Japanese counterparts that the deployment of the SDF into the Indian Ocean, sanctioned by Japan’s special anti-terrorism law, failed to comport with the heretofore “defense of Japan only” formulation and thus violated Japan’s Constitution. Japan, in turn, regarded China’s excursion into Japan’s Constitution as interference in Japan’s domestic affairs.

On Dec. 17, the *Sankei Shimbun* broke the story of the November meeting. The next day, Vice Minister of Foreign Affairs Nogami Yoshiji commented at a press briefing: “We Japanese know best what is in our Constitution.” The dispatch of the SDF was “in support of international operations against terrorism”... recognized by the United Nations and “naturally” constitutional.

Lost in the contretemps was a statement on the SDF deployment made on Nov. 21 by China’s Vice Foreign Minister Wang Yi to Japan’s Deputy Foreign Minister Takano Toshiyuki to the effect that “if the United Nations plays the leading role and under this framework, the countries concerned, including Japan, extend cooperation based on their own circumstances, we will welcome it.” This statement, reported by the *Nihon Keizai Shimbun* on Dec. 14, seemed to reflect the consensus, reached during late November Japan-China consultations in Beijing, that terrorist groups have become “a major factor that affects global security.”

Trade Tensions

In April, Tokyo, reacting to a surge in Chinese agricultural imports, imposed temporary safeguards on the Chinese leeks, shiitake mushrooms, and reeds used in the making of tatami mats. In June, Beijing retaliated by imposing 100 percent duties on the importation of Japanese automobiles, cell phones, and air conditioners. Attempts to resolve the dispute made little progress over the course of the summer and early autumn. Tokyo argued that China must first remove its retaliatory measures, while Beijing insisted that Japan take the first step and end its temporary safeguards. According to

government estimates, Japanese automobile companies stand to suffer approximately ¥420 billion in lost sales should the dispute continue through 2002.

The temporary safeguards were set to expire on Nov. 8 and would be followed by decision on extending formal, long-term restrictions, up to four years in duration. During the APEC ministerial meeting, Japan's Minister of Economy, Trade, and Industry (METI) Hiranuma Takeo met with his Chinese counterpart Shi Guangsheng in an attempt to move the dispute toward resolution. Anticipating Chinese retaliation and a further escalation in the trade dispute, Tokyo, at the end of October, resolved to intensify efforts to find a compromise and to postpone a decision on full-scale sanctions beyond Nov. 8.

With pressures building on Tokyo – a government survey released Oct. 31 showed a surge in the import of the three commodities and a resulting decline in domestic prices – working-level talks were held in Beijing on Nov. 1. Again, a resolution of the dispute proved illusive. Subsequently, Tokyo set Dec. 21 as a deadline for the negotiations.

In early December, following another round of working-level talks, it was decided to move the negotiations up to the political level, and on Dec. 11, METI Minister Hiranuma and Agriculture, Forestry, and Fisheries Minister Takebe Tsutomu met in Beijing with Shi. While their efforts failed to produce a settlement, both sides agreed to continue talking.

The denouement came Dec. 21 during talks between Hiranuma, Takebe, and Shi again in Beijing. While details of the arrangement were not disclosed, Japan agreed not to apply permanent sanctions on Chinese agricultural imports, while China agreed to lift its retaliatory measures on Japanese automobiles, air conditioners, and cell phones. At the same time, the two governments agreed to set up mediation boards, with government and industry representatives, to discuss and resolve trade disputes. The establishment of mediation structures followed a mid-December decision to begin regular economic consultations on bilateral trade issues in the coming year.

One sign of the Koizumi government's intent not to let the trade issues spiral out of control was METI's decision to postpone for six months a scheduled Oct. 15 decision on an appeal from Japan's towel industry for emergency safeguard protection. (See "Spiraling Downward," *Comparative Connections*, Vol. 3 No. 2.) The decision was eased by a fall in towel imports from China. August 2001 towel imports grew 2.1 percent over August 2000 imports; this was down from the July 2001 increase of 8.6 percent over July 2000. Overall towel imports from August 2000 to July 2001 grew at a rate of 10.1 percent; from August 2000 to August 2001, they increased at 8.5 percent.

Japanese Business – Moving to the Mainland

Even as the agriculture dispute simmered, Japanese investment continued to move toward the mainland. Mitsui Chemical announced its intention to invest ¥30 billion in a plant near Shanghai. After making layoffs and reductions in hours of its domestic workforce, Toshiba announced its intention to build a new cell phone assembly facility in China.

Toshiba also recently opened a copy machine plant in Shenzhen, capable of producing 400,000 units per year – 75 percent of its global output.

NEC and Matsushita Electronics went public with joint venture plans to develop third-generation cell phones in China. Toshiba will also invest in a new plant in Nanjing to produce copies of second-generation computer design and manufacturing instruments. Feeling protected by China's entry into the World Trade Organization, Sony announced that it would build a computer plant near Shanghai. Taking similar comfort in China's WTO accession, Sumitomo Rubber revealed plans for a ¥10 billion tire plant in Jiangsu Province.

Meanwhile, Japan's automobile industry continued to expand operations in China. In December Isuzu revealed that it would cease building and selling SUVs in Japan by late 2003 and begin to import diesel pick-up trucks manufactured in China. This would mark the first instance of Japanese automakers reverse-exporting vehicles into the domestic market. Meanwhile Mazda moved to begin assembling passenger car kits with joint-venture partner Hainan Motor. Likewise, Honda is planning to begin joint-venture production, in the range of 20-30,000 vehicles per year, of its fuel-efficient Fit model. This could bring yearly Honda production in China close to 100,000 vehicles. Honda already is producing the Accord and Odyssey minivan on the mainland and, like Isuzu, may be considering exporting China-manufactured models to Japan.

The Oct. 23 *Nihon Keizai Shimbun* observed that “an enormous volume of goods manufactured in China are flooding into Japan, while workers and money are flowing from Japan into China. The massive movement of economic integration is giving rise to heightened friction and adverse effects.” In the midst of a global economic downturn, Japan now had “to deal with China that is becoming a giant too.” The surge in investment to the mainland, particularly in manufacturing industries, both raised concerns about a “hollowing out” of Japanese industry and contributed to a perception of China as an emerging economic threat. The *Asahi Shimbun* quoted one anonymous business representative as saying “the X-day for Japan is the day China starts exporting automobiles.”

ODA

In June, the Ministry of Finance announced its intention to seek an overall 10 percent cut in Japan's Overseas Development Assistance (ODA). The Foreign Ministry translated this into a “considerable reduction” in its China program. In addition, the ministry made clear its intention to shift the program focus from large-scale infrastructure projects to the environment and education and training. Geographically, the programs would shift from the coastal regions to China's interior. Finally, the ministry announced that China programs would be put on a year-to-year funding basis as opposed to the traditional practice of extending assistance on a multi-year formula.

The prime minister personally broke the news to Jiang Zemin during the APEC Leaders' Meeting. Speaking to Japan's own economic problems and his efforts to revitalize the

economy, Koizumi asked for Jiang's understanding of the ODA cuts. At the same time, Koizumi argued that his government's efforts to revitalize the Japanese economy would in the future allow Japan to contribute to China's own development. In his remarks Jiang expressed confidence in the strengthening of bilateral relations across the board in the years ahead.

The reorientation of the China ODA program came amid growing disenchantment with the program itself – or at least Japanese perceptions of Chinese gratitude. An Oct. 25 *Nihon Keizai Shimbun* editorial “Japan Should Change its Thinking about ODA to China,” well captures the mood. The editorial bemoaned the lack of mutual understanding and trust in Japan's relations with China and argued that Japan's efforts to work with the Chinese Communist Party and the government alone have proven to be “absolutely insufficient to fill up this gulf.” In this regard, it observed that, while Japan has provided China with ¥3 trillion in ODA support over the past 20 years, Beijing has “never” told the Chinese people of Japan's largesse.

The editorial pointed out that with an annual growth averaging 9 percent and foreign direct investment surging, Beijing has averaged double-digit increases in defense spending for the past 13 years. Thus, it was “only natural that voices questioning why Japan, which has been having a hard time with unprecedented financial difficulties, should continue to provide ODA to China, which has become the ‘world manufacturer.’ ” To bridge the “gaps in consciousness” between the two people, the *Nihon Keizai* supported efforts to bring Chinese students to Japan and stepped-up public diplomacy campaign “to let the Chinese people know Japan's efforts.”

The day before the *Mainichi Shimbun* ran a similar editorial. Both papers endorsed the Foreign Ministry's reorientation of the China ODA program.

Chronology of Japan-China Relations October - December 2001

Oct. 1, 2001: Japanese Prime Minister Koizumi Junichiro announces he is prepared to travel to Beijing in advance of the APEC Leaders' Meeting.

Oct. 8, 2001: Prime Minister Koizumi visits Beijing and meets with PRC President Jiang Zemin and Premier Zhu Rongji to discuss Yasukuni visit, bilateral relations, and Japan's response to the war on terrorism.

Oct. 21, 2001: Koizumi meets with Jiang at APEC Leaders' Meeting in Shanghai. Trade ministers also discuss bilateral trade dispute.

Oct. 25, 2001: A *Nihon Keizai Shimbun* editorial titled “Japan Should Change its Thinking about ODA to China,” bemoans the lack of mutual understanding and trust in Japan's relations with China and argues Japan's efforts to work with the Chinese Communist Party and the government alone have proven to be “absolutely insufficient to fill up this gulf.”

Nov. 1, 2001: Working-level trade talks in Beijing fail to resolve trade dispute.

Nov. 5, 2001: Koizumi meets with Jiang and ROK President Kim Dae-jung at ASEAN Plus Three in Brunei.

Nov. 11, 2001: Jin Xide, director of the Japan Office in the Chinese Academy of Social Sciences, addressed issues regarding Japan's special anti-terrorism legislation, which, he observed, "signifies a major change in Japan's postwar foreign security strategy."

Nov. 21, 2001: Diplomatic consultations in Beijing on bilateral issues and Japan's response to the war on terrorism.

Nov. 22, 2001: Japan Defense Agency Director General Nakatani Gen and Chinese Ambassador Wu Dawei agree to exchange warship visits.

Dec. 11, 2001: Trade ministers meet in Beijing but fail to resolve issues.

Dec. 19, 2001: Trade talks resume in Tokyo at vice minister level.

Dec. 21, 2001: Trade ministers meet in Beijing and reach agreement on resolution of trade dispute.