

## Japan-China Relations: Smoother Sailing across Occasional Rough Seas

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### **1972-2002: 30th Anniversary of the Normalization of Japan-China Relations**

On Jan. 7, the *Asahi Shimbun* devoted its editorial to the Japan-China relationship. In a retrospective as well as prospective look at the bilateral relationship, the *Asahi* observed that relations with China over the past 30 years had endured a number of twists and turns. But looking back, the *Asahi* saw that ties have gradually deepened and, in turn, contributed to regional peace and stability.

The original constructs for the relationship, Japan as economic superpower and China as the world's largest developing country, have experienced a qualitative change as Japan has stagnated for more than a decade while China has attracted foreign investment and become the world's factory. In Japan, this has resulted in concerns about a loss of competitiveness and apprehension over the emergence of China as an economic threat. And, as underscored by last year's controversy over agricultural safeguards, economic problems have become politicized.

The *Asahi's* answer was to quote from a column written in October 1972, a month after normalization, in which China's economic transformation was envisaged as well as the eventual pressure that low-cost, quality goods from China would put on Japanese industries. This, the column argued, would only be a natural development. The answer for Japan would be to devise in both its industrial structure and in its intellectual/manufacturing infrastructure policies that will allow it to compete in the future. Thirty years later the writer of that column still saw China's development as a historical necessity and argued that the challenge for Japan, now as then, is to find a path that would allow for co-existence and co-prosperity with a developing China.

### **Off the Editorial Page ... Planning for the Anniversary**

The following day conductor Ozawa Seiji and producer Asari Keita called at the prime minister's residence to discuss the joint Japan-China production of *Madame Butterfly* in Beijing – a venture that Prime Minister Koizumi Junichiro had promoted to advance bilateral exchanges during the 30<sup>th</sup> anniversary year.

At the end of the month, senior political figures Nonaka Hiromu and Koga Makoto of the Liberal Democratic Party (LDP), Kanzaki Takenori of the Komeito, and Nikai Toshihiro of the Conservative Party met in Osaka to discuss activities to mark the anniversary year. Plans would include the dispatch of some 10,000 Japanese visitors to China and the welcome of some 3,000 Chinese visitors. The four agreed to serve as sponsors for an association of parliamentarians from the three ruling parties, which would aim to promote commemorative activities. The association was formally established on Feb. 4 with former Prime Minister Hashimoto Ryutaro serving as chairman.

Meanwhile, in Beijing, 53 Japanese representatives of nongovernmental Japan-China Friendship Organizations met with PRC President Jiang Zemin on Jan. 28. Jiang repeated his formulation of looking to the future using history as a mirror and emphasized the importance China's third generation of leaders attached to the development of nongovernmental relations between the two countries. The following day, Foreign Minister Tang Jiaxuan hosted a reception for the Japanese visitors and underscored the importance of Jiang's remarks. To facilitate study trips of Japanese primary, middle, and high school students, The *People's Daily* reported that the government had decided to do away with visa requirements for groups of five or more students for visits of up to 30 days.

On Feb. 9, President Jiang met with a delegation from the ruling coalition's Conservative Party. Jiang underscored the importance of the relationship to the people of both countries. In his presentation, the president argued that a prosperous China would benefit not only the Chinese people but Japan and the international community as well, and that the peaceful development of Japan would benefit China and Asia. In a departure from previous remarks, Jiang did not refer to the issues of history and refrained from using his "history as a mirror" formulation. According to the *Asahi*, however, China's *Xinhua News Agency* reported that Jiang did urge both countries to teach the next generation a correct understanding of history.

Prime Minister Koizumi's dramatic firing of Foreign Minister Tanaka Makiko, largely for domestic political reasons, cast a passing shadow on 30<sup>th</sup> anniversary preparations. In 1972, Tanaka's father, then-Prime Minister Tanaka Kakuei, had visited China to effect the normalization of relations. In Beijing and in Tokyo, the foreign minister was regarded as a member of the pro-China faction of the LDP. On the evening of Jan. 29, *Xinhua News Agency* unofficially expressed concern over the implications of Tanaka's dismissal for the bilateral relationship, which, in Beijing's eyes, had only recently begun to move in the right direction.

(At the end of March, Tanaka and her husband traveled to China and were received in Beijing with Cabinet-like status. Li Peng, chairman of the Standing Committee of National People's Congress, met the party at the airport, and Tanaka later met with Li and Chinese Foreign Minister Tang among other high-ranking officials. The Foreign Ministry's deputy spokesperson observed that China never forgets "an old friend.")

Tanaka's successor Kawaguchi Yoriko moved quickly in a telephone call to China's foreign minister to reassure Beijing of her intention to improve relations with China across the board during the anniversary year. The new foreign minister also expressed her interest in visiting China but had yet to firm up her diplomatic travel schedule.

In early March, sources in Beijing reported that preparations were underway for a visit to Japan by Vice Premier Wen Jiabao sometime in early May. Widely seen as a strong candidate to succeed Zhu Rongji as premier, Wen's visit was viewed as another indication of the importance China's leadership attached to relations with Japan. Meanwhile, preparations moved ahead for the April visit of Li Peng to Japan.

### **Dealing with Issues and Expanding Cooperation**

Efforts were also made at the bureaucratic and private-sector level to deal constructively with a number of sensitive issues affecting the relationship.

In mid-January, police officials met in Beijing to strengthen cooperation on illegal immigration, smuggling, and other organized crime related activities. In a first-of-its-kind step, Chinese police authorities agreed to visit Japan later in the month to develop a first-hand, on-the-scene understanding of Chinese criminal activities there. The authorities also agreed to antiterrorist cooperation with respect to the coming World Cup soccer tournament.

The meeting took place a week after the Japanese Coast Guard's seizure of 150 kg of amphetamines and the arrest of seven Chinese-speaking crew members in the waters off Kyushu on Jan. 7. The coast guard's search and seizure benefited from a tip from Chinese police authorities. The tip marked the third time since November that Chinese authorities had assisted in a potential drug-smuggling case. On March 1, a delegation of mid-ranking Japan Defense Agency (JDA) officials met in Beijing with China's Defense Minister Chi Haotian. Referring to amphetamines smuggling, Chi said that he wanted to take up the issue of Chinese-Japanese cooperation in the matter with JDA Director Nakatani Gen when he visits China later in the year.

At the same time, the Japanese government reached internal agreement on a proposal to establish a comprehensive bilateral mechanism to address economic issues. The mechanism would function at a vice ministerial level and include representatives from Japan's economic bureaucracies, including the Ministry of Economy, Trade, and Industry (METI), the Finance Ministry, and the Ministry of Agriculture, Forestry, and Fisheries. The proposal would call for annual meetings and also establish committees to exchange views on trade and investment issues. With China's entry into WTO and with memories of last year's safeguards dispute still fresh, the Foreign Ministry saw the initiative as a way to prevent similar controversies from arising. The new economic structure would parallel existing bilateral security and diplomatic dialogues. In the Foreign Ministry's view, the proposal reflected Tokyo's willingness to strengthen relations across the board by establishing a rules-based dialogue.

Also affecting Japan-China relations was the problem of trademark infringement of Japanese products and their marketing in China and Southeast Asia. At the end of February, Yamaha, Honda, Suzuki, and Kawasaki, together with Japan's Vehicle Manufacturers Association, dispatched a private-sector delegation to China under the leadership of Yamaha's President Hasegawa Takehiko to meet with their private-sector counterparts.

This marked the first large-scale, Japanese private-sector initiative to deal with the auto-bike trademark infringement problem. Of the existing world demand for auto-bikes, nearly 1 million vehicles, close to half are manufactured in China; of that number, 80 percent are knock-offs and 20 percent of that number find their way into the markets of Southeast Asia.

According to Japanese government statistics, China accounts for 34 percent of the region's counterfeit goods, putting it far ahead of Taiwan (18 percent), and South Korea (14 percent). At the government level, in early February METI Vice Minister Hirose Katsutada raised the issue during a visit to China. The *Asahi Shimbun* credited Beijing with making efforts to deal with the problem at a national level, but, at the same time, noted that compliance at the provincial and local level was another matter. Accordingly, Japan was reaching out to the private sector and working to strengthen cooperation with China's customs and police officials. To counter Chinese knock-offs in Southeast Asia, Honda, on Feb. 19, announced that it would begin to manufacture auto-bikes in Vietnam, giving it a 40 percent cost saving.

### **Commercial Relations – A Record Year**

For the third consecutive year, Japan-China set a new record high in 2001. Total two-way trade, according to figures released by Japan's External Trade Organization on Feb. 12, amounted to \$89.2 billion. The rate of increase, however, slowed to 3.5 percent over the previous year. This was due a steep fall-off in Japan's domestic demand for fabric and clothing, which is now, in large part, supplied from Chinese sources. Likewise, demand for personal computers and office machinery was also down. Overall, imports from China grew at a rate of 5.1 percent, while Japan's exports to China increased at a rate of 2.2 percent.

Over the first quarter, private-sector cooperation continued to expand along with the business operations of Japanese companies in China.

Advancing future economic cooperation, the two governments on Jan. 10 signed a memorandum of understanding to promote cooperation in the field of communications. Both see the agreement as opening the door to joint development in areas such as the next generation of the Internet and third-generation cell-phones. The next day, government and private-sector representatives met with their Chinese counterparts to exchange views at a Japan-China Communications Roundtable.

Seeking to head off another trade conflict involving the application of emergency safeguards, METI put off taking action on a petition filed by Japan's towel manufacturers against towel imports from China. A marked fall in towel imports from China facilitated METI's decision. In 1999, towel imports from China had increased 16.5 percent over 1998; in 2000 the increase amounted to 15.4 percent. However in the period Aug. 2000-Aug. 2001, imports fell to 8.5 percent and 4.2 percent in the period from Sept. 2001 to Jan. 2002.

### **The Mystery Ship**

On Dec. 22, the Japanese Coast Guard intercepted and exchanged fire with an unidentified ship operating within Japan's exclusive economic zone (EEZ). The ship fled from the Japanese Coast Guard, crossing into China's own EEZ, where it was scuttled. Determining the identity of the ship, almost immediately suspected of being a North Korean spy ship from debris found floating in the water at the site of the sinking, became a political issue in Japan. The prospect of raising the sunken ship soon became a diplomatic issue between Tokyo and Beijing.

From the standpoint of international law, the Japanese Foreign Ministry asserted that the ship could be raised even without China's consent because the ship had been scuttled in international waters. Nevertheless, as a practical matter, should a decision be made to raise the ship, it was recognized that it would be best to notify Beijing, given China's position on the matter. According to Japanese Coast Guard sources, the Law of the Sea Treaty posed no problem to raising the ship, but it rested in China's EEZ and because raising the ship could pose environmental problems, discussions with China were probably necessary.

In Beijing, on Dec. 25, the Foreign Ministry's spokesperson asked Japan to pay careful attention to China's interests and concerns. Because the ship rested in China's EEZ, it was hoped that Tokyo would inform Beijing of its management of the issue.

Over the ensuing month, China's diplomatic formulation remained unchanged. At the end of January, PRC Foreign Ministry's Deputy Spokesperson Zhang Qiyue again addressed the issue of Japan's raising the sunken ship. Zhang emphasized the location of the ship in China's EEZ and requested that, as Tokyo worked its way through the decision process, it respect China's interests and high degree of concern. On Feb. 7, Dai Bingguo, head of the Chinese Communist Party External Liaison Department, conveyed a similar message to a visiting delegation from Japan's Conservative Party in Beijing to discuss 30<sup>th</sup> anniversary commemorative events. However, it was later reported that when Vice Premier Qian Qichen met with the delegation on Feb. 8 he had expressed his "understanding" with respect to Tokyo's interest in raising the ship.

The same day, Prime Minister Koizumi, responding to questions in the recently convened Diet about raising the suspect ship, announced his intention to determine the facts of the incident but noted that winter weather had thus far precluded recovery-related activities. On Feb. 22, Tokyo announced its decision to launch a five-day underwater survey of the

ship, beginning Feb. 25. The Chief Cabinet Secretary Fukuda Yasuo also announced that the government had informed China of the decision the previous day.

The Japanese Coast Guard began survey activities on Feb. 26. Initial findings confirmed that the ship had been scuttled but remained largely intact; characters on the stern of the ship suggested it was home-ported in China. It was also reported that a Chinese research ship was operating within 5 km of the Japanese Coast Guard survey ships. In Beijing, the Foreign Ministry noted that the activities were taking place within China's EEZ, where China, under the UN Convention on the Law of the Sea, exercised jurisdiction over natural resources and the environment, and called on Japan to act with great care, respecting China's national interests and concerns.

The story became a bit more interesting and complicated on March 1. The *Asahi Shimbun* reported that the United States in late December had provided Japan with satellite intelligence on three North Korean ships that had sailed from the North Korean port of Nampo. The satellite intelligence also picked up a ship identical to the one that had been scuttled at a Chinese military port near Shanghai shortly before the high seas shoot-out. The *Asahi* report speculated that China may have been involved in provisioning the North Korean ship. The Chinese Embassy in Japan responded immediately, with Counselor Huang Xingyuan declaring that the *Asahi* report was "completely without foundation and untrue."

On March 2, the Japanese Coast Guard released the findings of its underwater survey. The survey established that the ship remained largely intact and that, as a result, there were no physical obstacles to raising the ship. The underwater camera confirmed that the ship had in fact been scuttled by what appeared to be the detonation of an explosive charge in the area of the bridge. When the weather improved at the end of April, the coast guard wanted to use divers to explore the site with a view toward the eventual raising of the ship.

On March 6, China's foreign minister made what the Japanese press interpreted as a strong warning against raising the ship. Addressing a press conference in Beijing, Tang cautioned Japan against taking steps that would escalate and complicate the state of affairs. Tang also revealed that Beijing had communicated to Tokyo its strong dissatisfaction with Japan's use of force against the mystery ship and reiterated Beijing's determination to protect China's sovereignty and administrative rights within its EEZ.

In Tokyo, Chief Cabinet Secretary Fukuda responded that that the government would do "what is necessary" for Japan. He also asserted that Tang had not said that Japan should not raise the ship and interpreted Tang's remarks as a call to keep China closely informed of Japan's activities. This, Fukuda noted, is exactly what Tokyo had been doing. At the same time, Prime Minister Koizumi was expressing his intention to cooperate with China in the matter.

The following day, Vice Foreign Minister Takeuchi Yukio called in the Chinese ambassador to protest Tang's remarks that the Japanese Coast Guard had "recklessly"

resorted to the use of force. Takeuchi told the ambassador that Japan's actions were a natural response to the situation. Video of the incident made clear that the coast guard had only fired after having been fired on. The coast guard's response could in no way be considered a reckless use of force. Finally, the vice minister, in a preview of Japanese talking points in the coming Japan-China security dialogue (See: Security, below) told the ambassador that China needed to improve the transparency of its defense budgeting process. Japan was paying careful attention to the high rate of increase in China's defense spending in recent years.

On March 8, the *Yomiuri Shimbun* reported that high-ranking United States government officials had repeatedly encouraged the Japanese government to raise the mystery ship. Security concerns – the possibility that the ship was carrying biochemical weapons and the attendant risks of environment pollution – were of primary concern. The *Yomiuri* also reported the United States argued that raising the ship would neither compromise China's economic rights within its EEZ nor affect its sovereignty. Tokyo was being urged to take a strong position in terms of securing China's understanding.

On March 13, Coast Guard Director General Nawano Katushiko told the Upper House Budget Committee of the agency's thinking with regard to raising the sunken ship. Nawano reviewed the results of the camera survey and told the committee that the agency planned to send divers to the site to determine if it was possible to raise the ship. In raising the ship, the coast guard wanted to discover what it was doing and whether it was engaged in criminal activities.

## **Security**

On March 6, during the National People's Congress, Beijing released its 2002 military budget. For the 14th consecutive year, the budget revealed a double-digit increase in defense spending, amounting to a 17.6 percent increase over 2001. China's defense budget and the on-going controversy over the mystery ship served as scene-setters for the resumption of the Japan-China security dialogue, March 18, in Tokyo.

The dialogue was suspended in 2001 because of the downturn in relations caused by the textbook controversy and Prime Minister Koizumi's visit to the Yasukuni Shrine. The 2002 meeting was the first held at the sub-Cabinet level with Japan being represented by Deputy Foreign Minister Takano Toshiyuki and Counselor Masuda Kohei of the Defense Agency and China being represented by Vice Foreign Minister Wang Yi.

The Chinese delegation opened on now familiar ground, asking Japan to proceed with caution in raising the mystery ship and asking to be kept informed on the matter. The Japanese, in reply, argued that the coast guard, in dealing with the incident, had responded properly and in accordance with international law. The Japanese focus was on the double-digit increases in China's defense spending and the lack of transparency in China's defense budget. The Chinese replied that China's defense spending, approximately \$20 billion in 2002, was far below that of the United States' \$379 billion and Japan's \$40 billion. At the same time, China recognized the need to take steps to

improve transparency. That said, China was concerned about what “appeared” to be an expansion of Japan’s military role since the end of the Cold War. The Japanese assured the Chinese delegation that Japan would not become a military superpower and the Chinese, in turn, assured the Japanese that China would not pursue a policy of military supremacy.

The dialogue also served as the occasion to announce plans for reciprocal ship visits, with Chinese ships visiting Japan in May of this year and a return visit to China by Japanese ships in 2003.

## **ODA**

Reflecting pressures within the LDP to review the government’s official development assistance (ODA) program for China, Japan’s low-interest yen loans were reduced in FY 2001, ending March 31, to a total of ¥160 billion. This translated into a 25 percent reduction in yen loans – the largest single reduction in the yen loan program since its inception in 1979. At the same time, Tokyo increased non-reimbursable financial aid, focused on China’s inland development, education, and environmental protection programs 25 percent to ¥6 billion, while technology assistance remained at about ¥8 billion. Overall ODA disbursements for China in 2001 totaled roughly ¥175 billion, a 17 percent decrease over 2000.

Prospects for FY 2002 were for further reductions. In June of last year, the Finance Ministry announced its intention to seek an overall 10 percent reduction in Japan’s ODA budget for the coming FY 2002, and the prime minister personally broke the news to Jiang during the APEC Leaders’ Meeting in Shanghai in October.

## **Chronology of Japan-China Relations January–March 2002**

**Jan. 7, 2002:** Acting on tip from Chinese police authorities, Japanese Coast Guard perform search and seizure of unidentified ship in Japan’s EEZ; the search yields 150 kg of amphetamines.

**Jan. 7, 2002:** *Asahi Shimbun* devotes editorial to Japan-China relationship.

**Jan. 8, 2002:** Conductor Ozawa Seiji calls on Prime Minister Koizumi Junichiro to discuss plans for staging of *Madame Butterfly* in Beijing as part of 30<sup>th</sup> anniversary celebrations.

**Jan. 14, 2002:** Japanese and Chinese police officials meet in Beijing to strengthen law-enforcement cooperation.

**Jan. 28, 2002:** Representatives of Japan-China Friendship Organizations meet in Beijing with President Jiang Zemin to plan development of NGO relations.

**Jan. 29, 2002:** *Xinhua News Agency* expresses concern over the implications of FM Tanaka's resignation.

**Feb. 4, 2002:** Ruling coalition establishes parliamentary association to promote 30<sup>th</sup> anniversary events; former Prime Minister Hashimoto Ryutaro serves as chairman.

**Feb. 4, 2002:** Prime Minister Koizumi in speech to the Diet refers to plans for strengthening Japan's relations with China during the 30<sup>th</sup> anniversary year.

**Feb. 7, 2002:** Dai Bingguo, head of Chinese Communist Party's External Liaison Department, meets with a visiting delegation from Japan's Conservative Party and asks Japan to respect China's interests and concerns with regard to the unidentified ship.

**Feb. 8, 2002:** PRC Vice Premier Qian Qichen expresses "understanding" with respect to Tokyo's interest in raising the ship.

**Feb. 9, 2002:** A delegation from Japan's Conservative Party meets with President Jiang in Beijing; Jiang stresses importance of the relationship to both countries.

**Feb. 14, 2002:** PM Koizumi announces his intention to determine facts of the mystery ship incident.

**Feb. 22, 2002:** Minister of Land, Infrastructure, and Transportation Ogi Chikage announces government decision to launch five-day underwater survey of the sunken ship.

**Feb. 26, 2002:** Survey of mystery ship incident site begins.

**March 1, 2002:** PRC DM Chi Haotian meets with JDA mid-ranking officials in Beijing.

**March 1, 2002:** *Asahi Shimbun* reports that the U.S. provided the satellite image of the ship identical to the sunken ship.

**March 2, 2002:** Japanese Coast Guard releases the findings of its underwater survey.

**March 6, 2002:** China's Foreign Minister Tang Jiaxuan cautions Japan not to take steps that would exacerbate and complicate matters with regard to the ship, expresses strong dissatisfaction with Japan's reckless use of force, and reiterates Beijing's decision to protect sovereignty and administrative rights within China's EEZ.

**March 6, 2002:** PRC National People's Congress releases its 2002 military budget.

**March 7, 2002:** Vice Minister of Foreign Affairs Takeuchi calls in the Chinese ambassador to protest Foreign Minister Tang's remarks regarding "reckless" use of force.

**March 7, 2002:** Chief Cabinet Secretary Fukuda states that Japan will do what is necessary for Japan, asserts Foreign Minister Tang did not say that Japan should not raise unidentified ship.

**March 8, 2002:** *Yomiuri Shimbun* reports that high-ranking U.S. officials encouraged the Japanese government's effort to raise the ship.

**March 13, 2002:** Coast Guard Director General Nawano addresses possibility of raising mystery ship in testimony before Upper House Budget Committee.

**March 18, 2002:** Japan-China Security Dialogue, involving senior Foreign Ministry and Defense officials resumes in Tokyo.

**March 21, 2002:** Former Foreign Minister Tanaka visits China and is received with Cabinet-like status.