

**Japan-China Relations:
Congratulations, Concern, Competition,
and Cooperation**

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The quarter began with celebrations commemorating the 30th anniversary of the normalization of relations. But, during the last quarter of 2002, Japan's relations with China played second fiddle to relations with North Korea, and, after Oct. 3, the nuclear crisis emerging on the Korean Peninsula.

Though not in Beijing to attend 30th anniversary celebrations, Japanese Prime Minister Koizumi Junichiro did meet with Chinese President Jiang Zemin at the end of October and Premier Zhu Rongji at the beginning of November. Issues of the past, exemplified by the prime minister's visit to the Yasukuni Shrine, and the future, North Korea and free trade agreements, dominated the discussions. However, even as the leaders met to advance cooperation, public opinion surveys in Japan and China pointed to problems ahead in the relationship.

Nevertheless, China's new leaders, announced formally during the November People's Party Congress, were favorably evaluated in Japan, in part as being less consumed with the issues of history. In what many in Japan saw as a goodwill gesture aimed at getting off to a good start with the new leadership, Tokyo moved quickly to resolve sensitive issues involving Taiwan's former President Lee Teng-hui and the activities of a Japanese military attaché in China.

China's concerns over Japan's surging steel exports caused Beijing to impose formal safeguards on five kinds of steel imported from Japan. At the same time, commercial relations continued to broaden and deepen, with surveys indicating Japanese companies focusing on China as the market of the future.

Toasts to Friendship... High-level Meetings

Ceremonies marking the 30th anniversary of the normalization of diplomatic relations between China and Japan took place in Beijing and Tokyo at the end of September. Noticeably absent at the Beijing ceremonies was Japanese Prime Minister Koizumi. Notwithstanding the importance of the anniversary, Beijing had let it be known that Koizumi's visit to Yasukuni Shrine in April 2002 made travel to China difficult during

anniversary ceremonies. In Japan, during an Oct. 8 interview with the *Asahi Shimbun*, Chief Cabinet Secretary Fukuda Yasuo put the best face on the situation, explaining that Diet issues and the compilation of the FY 2003 budget were making it difficult for the prime minister to visit China before the end of the year.

Nevertheless, despite the political problems caused in China by the Yasukuni visit, both Tokyo and Beijing recognized the importance of high-level diplomacy. At the end of October, the Asia Pacific Economic Cooperation (APEC) Leaders' Meeting in Los Cabos, Mexico provided neutral ground for a Koizumi-Jiang Zemin get together. Pulling no punches, Jiang raised the Yasukuni issues three times during the course of the 45-minute meeting. Jiang told the prime minister that his visits to Yasukuni struck at the emotions of 1.3 billion Chinese. According to Japanese sources, Koizumi told Jiang that he did not visit the shrine to pay homage to particular individuals, but as a sincere expression of reverence for those who found themselves unavoidably caught up in the war and repeated his resolution that Japan would never again resort to war. Jiang noted that the Chinese people differentiated between those Japanese who were victims of the war and the small coterie of militarists who had resorted to aggressive war. Nevertheless, he thought it better for Koizumi not to visit the shrine in the future. The discussion also touched on North Korea, with Jiang making clear both China's complete support for the denuclearization of the Korean Peninsula and his personal regard for Koizumi's initiative toward North Korea.

Following the meeting, Vice Minister for Foreign Affairs Takeuchi Yukio noted that Jiang had previously commented on the prime minister's Yasukuni visits and that his remarks at Los Cabos did not depart significantly from earlier statements. Chief Cabinet Secretary Fukuda told reporters that it was good for political leaders to have a frank exchange of views. He agreed with Jiang's formulation that the two countries should use history as a mirror in facing the future and thought both Koizumi and Jiang were committed to advancing the relationship. As for a Koizumi visit to China, Fukuda again retreated to the line that timing would make it difficult to schedule a visit before the end of the year.

A Less Optimistic Future

While political leaders spoke of cooperation, an *Asahi Shimbun*-Chinese Academy of Social Sciences public opinion poll suggested that, at the popular level, the relationship was moving in a different direction. The face-to-face polling was conducted in China on Aug. 26-Sept. 2 and in Japan on Sept. 16-17.

In comparison with a similar survey taken five years ago, the 2002 poll indicated that a majority in both countries, 45 percent in Japan and 50 percent in China, believes that the two countries are not getting along well with each other. In the 1997 survey, 44 percent of Japanese respondents thought positively of the relationship, and 40 percent of Chinese saw relations as positive. In 2002, 41 percent of Japanese respondents and only 22 percent of Chinese respondents were positive. Asked to identify major stumbling blocks, approximately 40 percent of Japanese respondents cited a lack of mutual understanding

and differences in political systems; 80 percent of Chinese respondents cited a Japanese failure to understand history as exemplified by Koizumi's visits to Yasukuni and the history textbook controversy.

As for the issues of history, 86 percent of Chinese respondents considered that Japan had yet failed adequately to compensate China for its past aggression. In Japan, 44 percent felt the same way – down from 56 percent in the 1997 survey – meanwhile those in Japan who saw it as sufficient rose to 42 percent, a major increase from 26 percent in the previous survey.

One encouraging finding was that both Japanese and Chinese saw economic exchanges as offering positive prospects for the relationship. That said, looking 10 years into the future, 57 percent of the Japanese saw China emerging as an economic threat; only 31 percent of Chinese respondents saw it that way. As for the country that would have the greatest influence in Asia, a majority of both Japanese and Chinese identified that country as China.

Likewise pointing to troubles in the relationship, in early December China's Japan Research Center released the results of a poll taken to mark the 30th anniversary. The center's poll found that only 5.9 percent of Chinese respondents felt friendly toward Japan, with 43.3 percent feeling unfriendly and 47.6 percent having ordinary feeling toward Japan. Respondents who expressed friendly or unfriendly feelings were asked to explain why. Given five reasons from which to choose, 63.8 percent agreed that Japan had yet to adequately reflect on its aggression toward China. Asked to choose from 14 images of Japan, 53.5 percent selected the Japanese army committing aggression against China.

At the end of November, Prime Minister Koizumi's "Task Force on Foreign Relations," chaired by former diplomat Okamoto Yukio, released its report, "A Basic Strategy for Japanese Diplomacy in the 21st Century." The report designated China as Japan's top foreign policy priority for the immediate future. Among its policy recommendations, the task force called on the government to discuss with Beijing China's teaching of history, which it identified as the root cause of anti-Japanese sentiment prevalent in China today. Citing concerns that China's military buildup could pose a serious threat to Japan, the report called for greater transparency in China's military modernization. The task force also recommended that economic relations not be caught up in political disputes, even as it recommended that ties to Taiwan be strengthened.

Looking Ahead

China's new leadership, announced during the 16th Party Congress in November, was favorably received in Japan. Japanese analysts regarded the next generation, represented by Hu Jintao, Wen Jiabao, and Zeng Qinghong, as less consumed by the issues of the past and more inclined to focus on the future in developing relations with Japan. They viewed the new leadership's recognition of the necessity for continued economic development

and China's booming trade relationship with Japan as elements that argue for stability in the bilateral relationship.

On Nov. 22, shortly after his elevation to the Politburo's Standing Committee, Zeng met with the chairman of the Japan-China Friendship Association, Tokyo University Professor Hirayama Ikuo, in the Great Hall of the People. Zeng emphasized that China's new leadership attached great importance to relations with Japan. Zeng noted that of the nine new members of the Standing Committee, he was the first, in this instance, to meet with guests from abroad. Japanese sources expressed the hope that Zeng would serve as the political "pipe" (channel) for the relationship.

In early October, the issue of a reported visa application by former Taiwan President Lee Teng-hui was raised at a Foreign Ministry press conference. Foreign Ministry spokesperson Takashima Hatsuhisa replied that a formal application had not been filed, but that, if it were, "we will take into account various factors when considering it." Lee had been invited by a Keio University student organization to speak at Keio's annual Mita festival.

On Nov. 11, Lee visited Japan's representational office, the Interchange Association of Japan in Taipei, and applied for a visa. In turn, Beijing immediately made clear its resolute opposition. The next day, the Foreign Ministry explained that, on receipt of the application, it had checked with Keio University regarding the lecture only to learn that it had been cancelled. (Keio officials, concerned about academic exchange programs with China, prevailed on the student organization to cancel the invitation). Subsequently, the Ministry contacted its Taipei office and Lee's associates. On Nov. 12, Lee withdrew his visa application.

Liberal Democratic Party (LDP) politicians called in the director general for Asian and Oceanic Affairs, Tanaka Hitoshi, and asked for an explanation. Tanaka told them that, given the confusion surrounding the proposed visit, the Ministry could not determine that it was "for private purposes." Eto Takami, chairman of the LDP's Eto/Kamei pro-Taiwan faction, blasted the decision, telling reporters that it is "absurd that must we think about Japan's diplomacy by giving consideration to China."

Tokyo also moved expeditiously to deal with another potential diplomatic issue. On October 26, Military Attaché Capt. Amano Hiromasa, while on assignment, hailed a taxi and mistakenly entered an off-limits area near the Chinese naval base at Ningpo, where he was apprehended and held for 13 hours. The Japanese Embassy in Beijing protested the detention and investigation as a violation of the Vienna Convention, while Beijing demanded that Amano be recalled. On Nov. 15, the Japanese Foreign Ministry announced that Amano returned to Japan voluntarily two days earlier.

Japan, China, South Korea Coordination on North Korea

Prime Minister Koizumi's North Korea initiative as well as Pyongyang's subsequent admission of a nuclear weapons program served to move Tokyo, Beijing, and Seoul toward diplomatic coordination. During the ASEAN Plus Three meeting in Phnom Penh, Koizumi, Zhu Rongji, and South Korean President Kim Dae-jung met on Nov. 4 to discuss issues related to the Korean Peninsula. Attention was focused on nuclear issues.

Koizumi asked for China's support in moving Pyongyang toward a constructive relationship with the international community, and Zhu made clear China's support for the Joint South-North Declaration on the Denuclearization of the Korean Peninsula, a peaceful resolution of the nuclear issues, and peaceful reunification. Japanese press reports noted that this meeting marked the first time China had evidenced a willingness to take up political issues in the ASEAN Plus Three context. Koizumi also took the opportunity to tell Zhu that, with respect to his recent discussion of Yasukuni Shrine with Jiang Zemin at Los Cabos, he agreed with Jiang's formulation that "history be used as a mirror in facing the future."

A month later, on Dec. 4, Foreign Minister Kawaguchi Yoriko, during a telephone conversation with her Chinese counterpart, asked China to urge North Korea immediately to give up its nuclear weapons program.

Security

On Dec. 9, China released its 2002 defense white paper. Japanese press reports noted that for the 14th consecutive year China's defense spending advanced at a double-digit pace, but, as a percentage of GDP, remained at last year's level of 1.5 percent. With respect to Asia-related issues, the white paper expressed concerns with joint (Japan-U.S.) research toward the deployment of a theater missile defense (TMD) system, viewing the system as not conducive to regional peace and stability. The document also made clear China's resolute opposition to any attempt by the United States to offer the system to Taiwan. As for cross-Strait relations, the report found no basic change and went on to reiterate that China will not forgo the use of force. In terms of China's own military policy, the white paper emphasized the need for the PLA to be able to prevail in regional conflicts under high-tech conditions.

China-Japan Free Trade Competition

On Oct. 16, an advisory panel to the chief Cabinet secretary released an interim report on free trade agreements (FTAs) recommending that Japan conclude as many bilateral FTAs as possible by 2006. A month later, the Prime Minister's Task Force on Foreign Relations in its report on Japanese diplomacy similarly supported the conclusion of free trade agreements.

During the ASEAN Plus Three meeting in Phnom Penh, Zhu Rongji unexpectedly proposed that China, Japan, and South Korea conclude a free trade agreement. Zhu's proposal underscored China's aggressive free-trade diplomacy that began a year ago with a proposal for a China-ASEAN FTA. Koizumi's subsequent decision to pursue an FTA with ASEAN was portrayed by the Japanese press as being a day late and a dollar short, "clearly without a strategy," and facing the almost insurmountable political challenge of liberalizing Japan's highly protected agricultural market. It was also noted that free trade negotiations with ASEAN had yet to begin.

During the Phnom Penh meeting, China and ASEAN signed a framework agreement to govern FTA negotiations. The Japanese press played Zhu's free trade initiatives as stepping-stones toward an East Asia leadership role, with the *Mainichi Shimbun* observing that this would without doubt be a "threat" to Japan. Addressing the issue, Koizumi, however, told the *Asahi Shimbun* that he does not see China as a threat but as a market opportunity.

Japanese officials who accompanied the prime minister to the ASEAN meeting expressed irritation at Zhu's proposal, branding it "unrealistic" at a time when China had yet to demonstrate that it is prepared to meet its WTO commitments. Nevertheless, the Phnom Penh meeting produced a commitment among ASEAN, China, Japan, and South Korea to work toward the creation of an East Asia Free Trade Area in the mid- to long-term.

Economic Relations

In early November, China announced that, as of Nov. 20, formal safeguards would be applied on five imported steel products: hot- and cold-rolled plate, colored-sheet, magnetic sheet, and cold-rolled stainless sheet. The safeguards will be in effect through May 2005. Tariffs on the affected products will increase 10.3 to 23 percent.

In response, Tokyo proposed bilateral consultations. From April to September, Japanese steel exports to China had increased 69.2 percent over the same months of 2001. Under the provisional safeguards in effect since May, Japan's major steel makers have moved to reduce steel exports to China. From October through December, reductions were expected to reach 10-30 percent with even bigger cuts in the first quarter of 2003. As a result, Japan's major steel makers were relatively confident that the imposition of formal safeguards would have limited affect on their businesses. Mid- and small-scale producers, however, are expected to feel the pain.

On Nov. 4, the *Nihon Keizai Shimbun* released results of a Survey of Japanese Industry Strategy Toward China and Asia, taken in conjunction with the Japanese Economic Research Center. Of the 326 companies polled, respondents indicated expectations for a 45-50 percent increase in sales volume in China by the year 2005, with sales growing an average of 10 percent a year. (The China-based production of companies surveyed amounts, on average, to ¥5.3 billion, with China-based sales amounting to 39 percent of domestic sales.)

Seventy percent of the respondents see China emerging as the world's leading market in the next five to 10 years. At the same time, the companies saw sales elsewhere in Asia, with the exception of Japan, as falling on average 18 percent by 2005. As for preferred strategies toward China and Asia, 52 percent are opting for involvement with local firms toward the opening of China's markets, while 40 percent see China becoming the world's low-cost manufacturer. While over 70 percent of the companies polled are considering future investment in China, many see a risk of excessive concentration. Of the 47 percent of companies actively considering, or engaged in, closings of facilities in Asia and relocation, 35.2 percent are inclined to relocate in China, while 61.7 are not.

As for the risks of doing business in China, the most frequently cited concerns were: change in government policy, 70.4 percent; intensification of competition, 43.3 percent; intellectual property rights, 39.2 percent. As for the greatest obstacles to business development, 52.6 percent cited the lack of a rule of law; 15.6 percent, the lack of infrastructure; and 7 percent, a lack of top-flight managers.

Nevertheless, individual Japanese companies continued to expand operations in China.

In October:

- Toyota opened its first assembly plant in China, aimed at initially producing 30,000 automobiles for the China market, increasing to 400,000 by 2010. The facility will be operated as a joint venture with China's Taijin First Auto Works.
- Daihatsu, a Toyota affiliate, announced a joint venture with China's largest automaker, First Auto Works, to begin production of compact automobiles by 2005.
- DVD patent holders, Toshiba, Hitachi, Matsushita, Japan Victor, Mitsubishi, together with America's Time Warner and IBM reached a royalties agreement with 50 Chinese firms, which last year exported 3 million machines to the United States. Under the terms of the agreement the Chinese firms will pay ¥1.5 billion in fees to the seven Japanese and U.S. companies.

In December:

- Digital camera-maker Olympus announced plans to increase production in China from 1 to 2 million units by the spring of 2003. Sanyo also intends to boost production in China and Indonesia.

Finally, preliminary trade statistics for 2002, released in mid-December, indicate that China has become the largest exporter to Japan, surpassing the United States for the first time. On an import clearance basis, imports from China, excluding Hong Kong, amounted to ¥6.31 trillion in the period January-October, exceeding the ¥6.04 trillion total imported from the United States. In 1999, imports from China were little more than 60 percent of the imports from the United States. With Japanese companies relocating

manufacturing operations to China, exports back to Japan today include not only low-valued added textiles but increasingly high-value computers, digital cameras, and office equipment.

Elsewhere

On Nov. 28, Japanese officials traveled to Beijing for meetings over the issue of compensation for damages suffered by Chinese fisherman during the raising of the North Korean spy ship. The Japanese side reiterated that it was prepared to address the issue once its investigation of the matter is completed. The November meeting was the fifth bilateral meeting to discuss the compensation issue. Also on Nov. 28, Japanese and Chinese officials met in Beijing to discuss recent (August and September) Chinese violations of Japan's exclusive economic zone.

Rapidly expanding commercial relations, despite the inevitable trade disputes, serve to stabilize Japan's relations with China, and the continuing crisis on the Korean Peninsula will serve to enhance diplomatic cooperation between Tokyo and Beijing. At the same time, political and history-related wild cards remain in the deck and can hit the table at the most unexpected and inopportune moments.

Chronology of Japan-China Relations October-December 2002

Oct. 8, 2002: Chief Cabinet Secretary Fukuda Yasuo explains in *Asahi Shimbun* interview that Diet issues and the compilation of the FY 2003 budget make it difficult for the prime minister to visit China before the end of the year.

Oct. 16, 2002: Advisory panel to Chief Cabinet Secretary Fukuda releases interim report on free trade agreements (FTAs) recommending that Japan conclude as many bilateral FTAs as possible by 2006.

Oct. 26, 2002: Japanese military attaché apprehended by Chinese police in “off-limits area” near Chinese naval base.

Oct. 27, 2002: Prime Minister Koizumi and PRC President Jiang Zemin meet at APEC Leaders' meeting in Los Cabos, Mexico.

Nov. 4, 2002: PM Koizumi, Zhu Rongji, President Kim Dae-jung meet during ASEAN Plus Three meeting in Phnom Penh, Cambodia. Discussions focus on North Korea and Zhu's proposal for a China, Japan, South Korea Free Trade Agreement.

Nov. 4, 2002: *Nihon Keizai Shimbun* releases results of a Survey of Japanese Industry Strategy Toward China and Asia, results indicate expectations for a 45-50 percent increase in sales volume in China by the year 2005.

Nov. 11, 2002: Former Taiwan President Lee Teng-hui applies for visa to visit Japan.

Nov. 12, 2002: Former President Lee withdraws visa application.

Nov. 15, 2002: Japanese Foreign Ministry announces voluntary return (on Nov. 13) of Japanese military attaché from China.

Nov. 20, 2002: China applies formal safeguards on five categories of steel imported from Japan, lasting until May 2005.

Nov. 22, 2002: Politburo's Standing Committee member Zeng Qinghong meets with chairman of the Japan-China Friendship Association, Tokyo University Professor Hirayama Ikuo, in the Great Hall of the People. Zeng emphasizes China's new leadership attaches great importance to relations with Japan.

Nov. 28, 2002: Prime Minister's Advisory Task Force on Japan's Foreign Relations issues report on Japan's diplomatic strategy for the 21st century. China cited as top priority.

Nov. 28, 2002: Chinese and Japanese officials meet in Beijing to discuss China's claims for compensation resulting from recovery of North Korean spy ship as well as Japanese protests of recent Chinese violations of Japan's EEZ.

Dec. 4, 2002: Japanese Foreign Minister Kawaguchi Yoriko telephones Chinese FM Tang Jiaxuan to ask China's help with North Korea nuclear program.

Dec. 4, 2002: FM Kawaguchi, during a telephone conversation with her Chinese counterpart, asks China to urge North Korea to immediately give up its nuclear weapons program.

Dec. 9, 2002: China issues 2002 defense white paper.

