

Japan-China Relations:

A Volatile Mix: Natural Gas, a Submarine, a Shrine, and a Visa

James J. Przystup

Institute for National Strategic Studies, National Defense University

The dispute over exploration of natural gas fields in the East China Sea continued to simmer. China proposed working-level discussions and the two sides met in Beijing. The results left Japanese officials wondering why they bothered to attend. Shortly thereafter, Japanese patrol aircraft tracked a Chinese nuclear submarine traveling submerged through Japanese territorial waters. Beijing's apology paved the way for summit-level talks between Japanese Prime Minister Koizumi Junichiro and China's President Hu Jintao and later Premier Wen Jiabao. The talks only highlighted issues of Yasukuni Shrine and history in the bilateral relationship, underscoring national sensitivities in both countries. In Japan, reaction centered on graduating China from Japan's ODA program; this was not appreciated in Beijing. In the meantime, Tokyo issued Japan's new National Defense Program Guidelines, which highlighted China's military modernization and increasing naval activities, concerns which Beijing found groundless. Finally, Japan approved a visa for Taiwan's former President Lee Teng-hui, in Beijing's eyes a "splittist" and advocate of Taiwanese independence.

Also during the quarter, commercial and economic relations continued to expand. The phenomenon of bifurcated political and economic relations with China is now characterized in Japan as "cold politics; hot economics." An end of year *Asahi Shimbun* editorial asked: "can this be resolved?"

Exploration in the East China Sea

China's continuing exploration in the Chunxiao natural gas field, an area of the East China Sea adjacent to the mid-point demarcation line between China and Japan, raised issues of sovereignty and natural resource development. While Tokyo claims the mid-point line as the maritime boundary of its Exclusive Economic Zone (EEZ), Beijing has consistently refused to recognize the mid-point line as the maritime boundary. Beijing has also consistently refused Tokyo's request for data regarding its exploration in the Chunxiao field. In July, this led Japan to launch its own exploration of the field on its side of the mid-point line and resulted in protests from Beijing that Japan immediately stop activities that "infringed on China's interests and sovereignty." Coming full circle,

Tokyo again asked Beijing for data, which Beijing again refused. That's where matters stood as the final quarter of the year opened.

On Oct. 17, Japan's Minister of Economy, Trade, and Industry, Nakagawa Shoichi, told a *Fuji TV* Sunday morning political talk show that Japan had information that China had granted exploration rights on Japan's side of the mid-point line to Chinese companies. If true, this would represent China's "exercise of sovereignty in Japanese waters." Nakagawa told viewers that "ignoring the EEZ is an unfriendly move" and made clear that "Japan could be disadvantaged if it refrains from saying what should be said." Earlier in the month, on Oct. 9, during the Asia-Europe meeting in Hanoi, China's Foreign Minister Li Zhaoxing called for working-level discussions on the issue during a meeting with his Japanese counterpart Machimura Nobutaka.

Chief Cabinet Secretary Hosoda Hiroyuki told reporters that reports of construction zones, if confirmed, would require Japan to ask China to cease such activities. Hosoda, however, expressed confidence that the issue could be resolved through diplomatic channels. Vice Foreign Minister Takeuchi Yukio underscored the need to confirm the information.

Meanwhile China's ambassador to Japan, Wang Yi, speaking at Japan's National Press Club, told reporters that China's explorations were being conducted in coastal waters where China's claim to sovereignty was indisputable. Nevertheless, Wang recognized that the East China Sea represented an area in which sovereignty claims did overlap but said that China wanted to resolve the issue through discussion conducted in a spirit of friendship. In the afternoon, Wang met with Foreign Minister Machimura at the Foreign Ministry and both officials agreed on the need for direct talks on the issue.

On Oct. 19, China's Foreign Ministry spokesperson Zhang Qiyue announced that working-level talks on the issue would begin the following week in Beijing. In Tokyo, METI Minister Nakagawa told reporters that talks would begin on the 25th. After a Cabinet meeting on the 22nd, Nakagawa told a press conference that the upcoming talks should deal with three issues: China's development of natural resources; its surveying of natural resources; and the maritime boundary in the East China Sea explorations.

Although China had requested the Oct. 9 Li-Machimura meeting in Hanoi, progress was nonexistent in efforts to address issues related to the maritime boundary and rights of exploration. In Tokyo, Machimura told reporters that "we do not think China provided enough information" and that Beijing's reply was "far from being satisfactory." Nakagawa was more direct saying that "I cannot understand why China proposed the talks." He noted that China "has proceeded with work to explore for gas regardless of the developments in bilateral talks" and he made clear that he was not prepared to "lend a hand to [China's] efforts to buy time."

In the aftermath of the Beijing meeting, Foreign Ministry spokespersons in Tokyo and Beijing endeavored to keep hope alive. China's *Xinhua News Agency* released a statement saying that the two sides had "agreed to continue to seek a solution through

consultations.” Tokyo was less committal, saying that both sides had “agreed to think about the continuation of this consultations.”

In mid-October, China suspended exploration activities in the East China Sea natural gas field.

On Dec. 7, a *P-3C* of Japan’s Maritime Self Defense Force found the Chinese maritime research ship, *Kexue Yi Hao*, operating off Okinotori Island in Japan’s claimed EEZ. The following day, the Foreign Ministry called in the minister at the Chinese embassy, Cheng Yonghua, to protest the ship’s activities within Japan’s EEZ. Chief Cabinet Secretary Hosoda noted that the incursion marked the 21st time this year that a Chinese research ship, operating without prior notification, was detected in Japanese waters.

To assert Japanese sovereignty in the area, Tokyo Governor and China hard-liner Ishihara Shintaro told a Dec. 10 press conference that a fisherman’s union under the Tokyo government would begin fishing activities off Okinotori and that he would construct fishing beds there. At the diplomatic level, Vice Minister Takeuchi telephoned Ambassador Wang to protest the ship’s activities. Wang said he would report the protest to Beijing but made clear that China’s position with regard to Okinotori’s status as an island differed from Japan’s. Subsequently the councilor at the Chinese Embassy reiterated his government’s position that Okinotori is not an island but a pile of rocks and thus could not serve as the legal basis for Japan’s assertion of EEZ rights. At the same time, Foreign Minister Machimura told visiting Chinese State Councilor Zhang Qizheng that this kind of behavior will harm relations between the countries. In Beijing, Harada Shinji, minister at the Japanese Embassy, lodged a protest at the Foreign Ministry, telling officials that such violations have come at significant cost to mutual trust.

Enter the Submarine

Even as the dispute over sovereignty in the East China Sea continued to roil bilateral relations, the discovery on Nov. 10 of an unidentified submarine heightened security concerns in Japan. On the morning of Nov. 10, Chief Cabinet Secretary Hosoda told reporters that “if China says the submarine is its own, we will naturally protest.” Patrol aircraft of the Maritime Self Defense Force (MSDF) tracked the submarine Nov. 10-11 as it traveled submerged in a northwesterly direction through Japanese waters off Okinawa. (Under international law, a submarine, transiting the territorial waters of a foreign country, must surface and display its national flag.)

On Nov. 12, Foreign Minister Machimura called Chinese Minister Cheng Yonghua to the Foreign Ministry to protest the incursion and demand an apology. Cheng said that China was investigating the matter and, because the investigation had yet to reach a conclusion, he could neither accept the protest nor offer apologies. At an afternoon press conference, the chief Cabinet secretary told reporters that he thought the incursion was intentional and labeled the incident “regrettable.” Prime Minister Koizumi said the incident was “extremely regrettable” and, given the importance of the bilateral relationship, urged both sides to act so as not to adversely affect relations.

At the same time, Japanese media, citing government sources, were identifying the submarine as Chinese and defining its presence as a highly provocative act. Media speculation over China's motives focused on intentions to intimidate Japan in the East China Sea dispute, probe MSDF's anti-submarine warfare capabilities, and, as part of a long-term Chinese naval strategy, to constrain U.S. options in a Taiwan contingency. Meanwhile, the leaders of Japan's political parties, LDP Secretary General Takebe Tsutomu, New Komeito Diet Policy Committee Chairman Higashi Junji, and New Democratic Party shadow Defense Minister Maehara Seiji, began to issue statements critical of China and Beijing's failure to admit responsibility for the incident. In an address in Wakayama prefecture, China's ambassador Wang Yi appealed for calm and mutual respect in seeking a resolution of the issue.

On Nov. 16, China admitted responsibility for the incursion and extended an apology. In a meeting with Japan's Ambassador Anami Koreshige, Vice Minister of Foreign Affairs Wu Dawei told Anami that China had confirmed the submarine as Chinese, attributed the incident to "technical errors" involved in normal training, and called the incident "regrettable." Referring to the Wu-Anami meeting, China's Foreign Ministry Spokesperson Zhang Qiyue, said that the "problem has now been settled in a proper manner." That evening Prime Minister Koizumi told reporters that Japan accepted China's apology and asked Beijing to take steps to prevent the recurrence of such incidents.

During the six-day controversy, the Koizumi government avoided harsh language and criticism even as it protested the incident with Beijing. China, in turn, responded by issuing an apology. The *Asahi Shimbun* quoted a Foreign Ministry official as explaining that "China responded sincerely to Japan's consideration" demonstrating "Hu's leadership intention to value relations with Japan." Resolution of the incident opened the final door to a Japan-China summit during the APEC meeting in Chile, planning for which had been underway since early October.

To the Santiago Summit

Against the background of the simmering dispute over the East China Sea, Foreign Minister Li and Machimura met in Hanoi Oct. 9 during the Asia-Europe (ASEM) meeting. When Li expressed the hope that an agreement satisfactory to both China and Japan could be reached on exploration of the natural gas fields, Machimura agreed. While not directly raising the issue of the prime minister's visits to the Yasukuni Shrine, Li referred to the common description of China-Japan relations as "politically cold but economically warm" and stressed the importance of the bilateral relationship. Machimura replied that he wanted to work toward making both economics and politics "warm."

Prior to the ASEM meeting, Prime Minister Koizumi told the press said that he would not be meeting with China's Premier Wen Jiabao in Hanoi. At the same time, he dismissed the view that his visits to the Yasukuni Shrine were the reason that a meeting would not take place. Foreign Ministry officials explained that Wen's already full schedule

precluded a meeting during ASEM but suggested that the upcoming APEC meeting in Chile and the ASEAN Plus Three meeting in Laos could provide the opportunity for a high-level meeting. Vice Foreign Minister Takeuchi told an Oct. 4 press conference that a Japan-China summit was “difficult” during the ASEM meeting, but the Foreign Ministry would continue to work toward a high level meeting in either Chile or Laos.

The Yasukuni issue returned to the top of the political-diplomatic agenda on Oct. 18. Appearing before the Lower House Budget Committee, Koizumi told the legislators that “I’m aware that the visits are unpleasant for China, but I believe there is nothing wrong about paying appropriate respect to the war dead as a Japanese.” The prime minister also had “doubts about bowing to other countries’ opinions ...based on different ideas of how to console the souls of the dead.”

That afternoon, China’s ambassador to Japan, Wang Yi, spoke at Japan’s National Press Club. Wang noted that “many people cite Japan’s views on births and deaths as its own unique culture [to justify the prime minister’s visits to Yasukuni]” but from his perspective they were “not a domestic affair or a cultural issue, but a diplomatic issue linked to whether importance is placed on justice.” The ambassador made clear that the visits “will end up having a negative effect on bilateral economic relations and expressed the hope that “Japan’s leader will have second thoughts.”

On Oct. 19, a supra-party delegation of 79 Diet members visited Yasukuni on the occasion of the autumn festival. The following day, Koizumi told the Upper House Budget Committee that he “did not consider visits to Yasukuni to be the major stumbling block” to a resumption of reciprocal high-level visits and that he expected China to evidence some understanding of the practice. Koizumi went on to say that it possible to hold the thought that China might welcome a decision to stop visiting the shrine, but questioned whether he should stop just because China says, “don’t do it.”

Addressing the Yasukuni issue, China’s Foreign Ministry Spokesperson Zhang told the press that China hoped “Japan’s leaders could handle the matter in a more delicate way and refrain from any acts that will hurt the feeling of the Chinese people as this affect the political foundations of the further development of our relations.”

On Nov. 9, Foreign Minister Machimura announced, after consultations with Foreign Minister Li, that they agreed to work toward a Koizumi-Hu meeting during the APEC meeting in Chile. The Chinese Foreign Ministry announced that the meeting would require the “concerted efforts of both sides and favorable actions and conditions.” China hoped that Japan would take the first step. At the same time, China saw no relation between the proposed meeting and the then unfolding submarine incident.

The pace of summit-directed diplomatic activity accelerated in mid-November. In Beijing, on Nov. 16, Vice Foreign Minister Wu Dawei and Japanese Ambassador Anami agreed to work toward a Koizumi-Hu meeting during the APEC meeting in Chile. On Nov. 16 and 17, the prime minister’s special advisor Yamasaki Taku met with State Councilor and former Chinese Foreign Minister Tang Jiaxuan, Qian Qichen and Vice

Foreign Minister Wu Dawei. The next day, after meeting in Santiago, Chile, Foreign Ministers Machimura and Li announced that Prime Minister Koizumi and President Hu would meet Nov. 21 on the sidelines of the APEC meeting. A Japanese official said that, during the meeting with Machimura, Li had described the prime minister's visit to Yasukuni as an "unavoidable" issue and asked that Koizumi deal with it "appropriately."

Summitry: Round I – Santiago

Prime Minister Koizumi and President Hu met in Santiago Nov. 21 (Nov. 22, in Japan), the first Japan-China summit in over a year. Both prime minister and president agreed on the importance of the bilateral relationship – and little else. In terms of the major flashpoints in the relationship, the submarine incident and, of course, Yasukuni, the two leaders were essentially talking past each other and to domestic constituencies. The meeting went well beyond the scheduled 30 minutes.

President Hu, noting that "historical issues cannot be avoided and passed over," made clear that the prime minister's visit to the shrine was an "obstacle" in the development of bilateral relations and asked that Koizumi take steps "to deal with this problem appropriately." This was the first time Hu referred to the Yasukuni issue. In turn, the prime minister explained that his visits to the shrine were to honor Japan's unwilling war dead and to underscore that Japan will never again resort to war and, accordingly, asked for China's understanding. He too agreed that "it is important to take history seriously."

The prime minister returned to the Nov. 18 foreign ministers' meeting and asked Hu to reconfirm China's apology over the submarine incident and to take "steps to prevent a reoccurrence." Avoiding the use of the word "apology," Hu replied that the matter had already been settled by the foreign ministers.

As for China's natural gas exploration in the East China Sea, Koizumi said "a proper response is needed" and that care be taken so as not to turn the East China Sea into "a sea of conflict." Both agreed on the need for dialogue to resolve the issue peacefully. Both also agreed to work toward an early resumption of the Six-Party Talks on North Korea.

Following the meeting, when reporters pressed the prime minister on future visits to the shrine, Koizumi replied that he was "determined not to respond to any questions about the issue from now on." Koizumi also told the press that he wanted to "develop relations with China from a broad perspective so that our entire relationship will not encounter difficulties due to a couple of undesirable problems or disputes..." He thought it important to have "an exchange of frank views."

Summit Reaction

Chinese media focused on Yasukuni and the president's statement that Koizumi's visits to the shrine were an obstacle to the development of relations. The Nov. 23 lead editorial in the *Yomiuri Shimbun* "China: Primary Source of Political Stagnation" took a different

track and concluded by asserting that it was time for China to cease meddling in Japan's domestic affairs and to take steps toward a political breakthrough.

Within the LDP, Hu's view of the prime minister's visits to Yasukuni produced a strong and negative reaction. LDP Secretary General Takebe told reporters that he did not think Koizumi would cease visiting the shrine just because China's president had made the request. "If he did so," Takebe argued, "it will give the impression he is giving in to China." Takebe thought the visits would continue next year.

On Nov. 23 in a speech in Gifu City, LDP Deputy Secretary General Abe declared that, "a foreign country has no business telling other nations what to do." Abe regarded Koizumi's visits to Yasukuni as "his responsibility as the leader of the nation." Four days later, Abe told Japanese business leaders, concerned over the possible political fallout of Yasukuni on economic relations, that paying such respects was only natural. To disavow it would be to tear up the foundations of the country and destroy its industries. He questioned whether an increase in sales is worth the trade-off. Abe went on to say that it was important for future leaders to continue the practice.

The Road to Vientiane

Following his meeting with Hu, Koizumi told reporters that he was looking forward to his meeting with Chinese Prime Minister Wen Jiabao on the sidelines of the ASEAN Plus Three meeting in Laos. On Nov. 26, however, a senior Japanese Foreign Ministry official told the *Nihon Keizai Shimbun* that the previously planned meeting between Koizumi and Wen would likely not take place. The official also cast doubt on a meeting between Japanese and Chinese foreign ministers. On Nov. 27, the *Sankei Shimbun* reported that planning for a Koizumi-Wen meeting had resumed – at the request of Beijing.

Summitry: Round II – Vientiane

Koizumi and Wen met on the morning of Nov. 30. Their talking points were almost identical to those used during the Santiago summit. Wen told Koizumi that his visits to Yasukuni wounded the feelings of the Chinese people and were the reason for the political stagnation in the relationship. Wen asked him to put an end to the visits and handle the issue "appropriately." In reply, Koizumi repeated his mantra – that he visited the shrine to pay homage to the unwilling war dead and as a pledge never again to resort to war. Koizumi appealed for cooperation in the East China Sea and asked that China take steps to prevent another submarine incursion. Wen said that China wanted to continue discussions. Both agreed on the need to resolve the North Korean issue through an early resumption of the Six-Party Talks and on the strong and positive direction of economic relations. Wen also expressed appreciation for Japan's ODA and asked that decisions regarding the future of the program be handed in an "appropriate" way. Responding to Koizumi's invitation to visit Japan during next year's Aichi Expo, Wen retreated to the tried and true formulation that he hoped to visit Japan "under good conditions in a favorable atmosphere." The meeting lasted over one hour, well beyond the scheduled 25 minutes.

That evening, Koizumi told reporters that Yasukuni was not the only issue in Japan-China relations and that he thought that best way to manage the relation was to take a broad perspective and cooperate in a forward-looking direction.

Reaction: Round II

On Dec. 10, *Kyodo News Service* released the result of a public opinion telephone survey on the prime minister's visits to Yasukuni. Fifty-one percent of respondents said that the prime minister should visit the shrine next year, while 40.8 said he should postpone a visit. Among supporters of the Koizumi Cabinet, 68.1 percent said the prime minister should continue the practice; among LDP supporters the figure hit 72.4 percent. A *Mainichi Shimbun* poll revealed a closer divide: 46 percent favoring continuation, 40 percent opposition. But 64 percent of the *Mainichi* respondents did not consider China's demands on the issue convincing; only 27 percent thought they were.

Pointing to the downward trend in political relations, the Cabinet Office on Dec. 18 released the results of its survey of public opinion with respect to various foreign countries. Of the 3,000 polled during October, only 37.6 percent felt friendship toward China, a drop of 10.3 percent over the previous year. At the same time, 58.2 percent described relations with China as not friendly, an increase of almost 10 percent over 2003. The *Asahi Shimbun* conducted a similar poll in November – with similar results: only 2.5 percent of the respondents trusted China “very much,” 14.0 percent trusted China “somewhat”; in contrast 44.2 percent “did not trust China very much,” and 27.0 percent “not at all.” Respondents to a December *Nihon Keizai* poll, while expressing dissatisfaction (60 percent) with Koizumi's China policy, nevertheless supported his Yasukuni policy, 48 percent in favor, 36 percent against.

ASEAN Plus Three

On Nov. 29, the “Plus Three” meeting among the leaders of Japan, China, and the Republic of Korea produced agreement to cooperate closely on an early resumption of the Six-Party Talks and Iraq reconstruction. The three leaders also adopted an action strategy to advance cooperation in 14 fields, including security, trade, investment, and the environment. Both Wen and ROK President Roh Moo-hyun expressed understanding on the need for UN reform but refrained from expressing support for Koizumi's efforts to secure a permanent seat on the Security Council.

Security

On Oct. 26, Chinese and Japanese Defense officials met at JDA headquarters to discuss security issues, the first meeting of defense vice ministers since November 2000. Among the issues discussed were the realignment of U.S. forces in Japan, China's continuing research activities in Japan's EEZ, the maritime boundary in the East China Sea, and Taiwan.

Meanwhile, the *Tokyo Shimbun* reported on Nov. 8 that, over the course of the autumn, the Defense Agency had considered the possibility of China attacking Japan. Three scenarios were posited: confrontation over marine resources, territorial claims over the Senkaku islands, and a China-Taiwan contingency. Developed in September by the agency's committee on defense capability, the scenarios were intended for review in conjunction with the drafting of Japan's new National Defense Program Guidelines (NDPG). *The Japan Times* quoted the study to the effect that China "is cautious about using military force to solve international issues, as it understands that doing so will hinder its own development." But, it was considered "likely that the Chinese Communist party will go its own way to secure its sovereignty and territory as well as expand its interests in the sea."

The Koizumi government released the new NDPG Dec. 10, much to Beijing's dismay. In Beijing Foreign Ministry Spokesperson Zhang Qiyue said that China was "deeply concerned with the great changes of Japan's defense strategy and its possible impact." Zhang also expressed "strong dissatisfaction" with the NDPG's call for alertness with regard to China's military modernization, dismissing it as "totally groundless and extremely irresponsible." Chief Cabinet Secretary Hosoda told reporters that the government did not regard China as a threat, but media commentary suggested that the submarine incident made a reference to China unavoidable.

On Dec. 20, the *Asahi* reported that a senior JDA official had briefed members of the LDP's security project team in November during the party's consideration of the draft NDPG and, speaking with reference to China, said that China would gain military supremacy over Taiwan by 2008 as a result of its continuing introduction of Russia's high-performance *SU-27* and *SU-30* aircraft. The official also is reported to have said that China's deployment of such aircraft could affect Japanese islands in the vicinity of Taiwan. A week later, Beijing released its 2004 Defense White Paper that called for a 14.2 percent increase in defense spending – the 16th consecutive year of double-digit increases.

Overseas Development Assistance (ODA)

In the face of growing controversies with China, its rapidly growing economy, and Japan's own financial constraints, public support in Japan for China ODA has continued to drop.

On Oct. 1, Foreign Minister Machimura presented the 2004 ODA White Paper to the Cabinet. Two days later, following a Tokyo town hall meeting to discuss Japan's ODA program, Machmura told a press conference that it was premature to end Japan's economic assistance program for China, but, at the same time, observed that yen loans would continue to be reduced. The yen loan program for China has been pared back for three consecutive years since 2001, falling to 96.7 billion yen in 2003. Machimura noted that the ODA program would be refocused on the environment and human resource development. The foreign minister also suggested that at some unspecified future date China will graduate from the program.

Reflecting popular discontent, the Upper House of the Diet on Nov. 10 released a report calling for the eventual termination of Japan's ODA program for China. The report, prepared following an August fact-finding visit to China by three groups of Upper House members, found no reason to continue the program in light of the rapid development of China's economy. It also argued that Japan's yen loan program to China "should be reduced with an eye to abolishment." Japanese taxpayers, it noted, "are not happy that their pay is being used as ODA to China."

In the face of growing political opposition – and reaction to the Santiago summit – Foreign Minister Machimura during a Nov. 26 Diet session suggested that the time may have arrived for China to graduate from Japan's ODA program. Two days later in Vientiane, Prime Minister Koizumi echoed Machimura's sentiments, telling reporters that, "China has achieved remarkable economic development, so it may be time for it to 'graduate.'" Koizumi went on to observe that he expected China itself will become a donor country. Speaking to the prime minister's comments, Chief Cabinet Secretary Hosoda told reporters that any decision on graduation should be based on discussions between Japan and China.

In any case, China's Foreign Minister Li appeared nonplussed, remarking that, "The Chinese people are capable of independently developing their own country with their own power and knowledge." China's Foreign Ministry Spokesperson Zhang took a slightly different line, telling reporters that yen loans had been a major plus in developing relations between the two countries and expressed the hope that they would continue. She went on to point out that the loans were intimately tied to economic relations between the two countries and also served to benefit the interests of Japanese companies.

On Dec. 14, *Mainichi Shimbun* reported that the Foreign Ministry's previous account of the Koizumi-Wen discussion of the ODA had indeed been diplomatic. The *Mainichi* noted that Wen's statement that China had given up calls for "war reparations" implied that China viewed the ODA program as precisely that. According to the *Mainichi*, Wen also told Koizumi that "it is one thing for an legislative body or the public to make a fuss, but it undesirable for an administrative body to make such a comment." The story quoted a Foreign Ministry official attributing reluctance to report on the exchange to a desire "to avoid a focus on the standoff between Japan and China."

On Dec. 20, the Finance Ministry announced that the ODA budget would be cut for the sixth consecutive year. Foreign Ministry officials, noting the appreciation of the yen against the dollar, argued that there would be no appreciable change in the ODA budget.

Taiwan: Lee Teng-hui

In mid-December, Chief Cabinet Secretary Hosoda announced that the government would issue a visa to former Taiwanese President Lee Teng-hui to visit Japan at the end of the month. Hosoda told reporters that Japan understood the purpose of Lee's visit would be "sightseeing," not "political activity." He did not think the visit would have

“any major effect” on relations with China. Prime Minister Koizumi saw “no reason to refuse the visa request.” Foreign Minister Machimura echoed his boss.

In Beijing, reaction was immediate. Foreign Ministry spokesperson Liu Jianchao branded Lee a “Taiwan independence gang leader” and went on to say that Japan’s decision to allow the visit is a “provocative act against China’s unity.” At the same time, Vice Foreign Minister Wu Dawei called in Ambassador Anami to formally protest the decision. In Tokyo, Ambassador Wu told Vice Minister Takeuchi that Japan’s action was “incomprehensible and unacceptable.” The ambassador branded Lee a representative of “splittists” actively engaged in rupturing China. Afterward, Wang told reporters that issuing a visa would mean that, “Japan has no desire to improve relations.”

On Dec. 17, Lee applied for a visa. On Dec. 21, the Japanese government issued the visa. Foreign Minister Machimura told the press “we have no reason to reject a visa application for a sightseeing tour by a private citizen. If the government refuses, Japan will not be regarded as a law-biding nation.” Machimura said issuing the visa did not mean recognition of Taiwan’s independence. At the same time, he cautioned members of the LDP against meeting with Lee, stressing that the government’s “strict policy prohibit you from approaching him.” The chief Cabinet secretary also cautioned lawmakers from meeting with Lee. In his public comment, the prime minister referred to the private citizen-sightseeing nature of the visit, then went on to say that China “does not necessarily understand the situation.” Koizumi speculated that Beijing was becoming “nervous about the Taiwan issue.”

China’s response came in speech delivered in Tokyo by Ambassador Wang. Wang labeled Lee a promoter of independence – “not only a troublemaker – he could also become a war-maker.” He found it difficult to understand why Japan “is extending a favor to a person who slanders and attacks China.” Wang asked that the government reconsider its decision.

Lee arrived in Japan Dec. 27. At the same time, Vice Foreign Minister Takeuchi made clear to media – and to Beijing – that Lee’s visit was “purely” for sight-seeing purposes and that Lee would not engage in any political activities. (When Lee last visited in Japan in 2001 for medical purposes, he met with a member of Japan’s Conservative Party and issued a statement on departure.) The *Asahi Shimbun*, reporting from Beijing, quoted a Chinese Communist Party source as saying “For China, his visit to Japan is, in a sense, a more realistic issue than the prime minister’s visit to the Yasukuni Shrine.” Addressing the granting of the visa and Lee’s visit, the Dec. 27 *Yomiuri Shimbun*’s lead editorial defined the event as symbolic of Japan’s relations with China at last approaching normalcy.

Business and Commerce

Despite political controversies and abrasions, economic relations continued to expand. If political issues are creating distance between Japan and China, business and commerce are exerting a strong counter-force. Below are highlights from the final quarter.

Matsuya Foods announced that it would resume serving its popular “gyudon” (beef and rice dish). Heavy reliance on American beef coupled with the government’s import ban following the detection of mad cow disease in the U.S. caused restaurants to suspend serving “gyudon.” Resumption was made possible by importing beef from China.

Sanyo Electric Company announced plans to triple production of commercial-grade air conditioners, setting a 2005 target of 90,000 units.

Also looking to expand its share of the China market, Oki Electric announced that it has established a semiconductor marketing and design company in Shanghai, capitalized at \$2 million. Oki is looking to attain a threefold increase in sales by 2007.

Toshiba and TCL International Holdings of China agreed to set up a joint venture to manufacture household appliances, centered on refrigerators and washing machines. Initial output is targeted at 1 million units starting in 2006.

At the end of December, Family Mart announced the opening of its first franchised outlet in Shanghai; at present Family Mart owns 43 directly operated stores in Shanghai. It is looking to increase stores in Shanghai to 350 by 2007. Meanwhile Family Mart competitor Lawsons plans to increase outlets in Shanghai from 210 to 300 during 2005.

Mitsubishi Corporation announced that first half profits (April-September) had increased 48 percent, accounted in large part by China’s surging demands for energy and natural resources. The spike in energy and natural resource prices was steeper than the trading company had expected. CFO Mizuno Ichiro said, “all can be attributed to China.”

In all likelihood, political relations focused on issues of sovereignty, security and history are not likely to improve over the coming months. Maintaining the present frosty status quo should be considered progress. Indeed, the downward spiral may continue. At the same time, commercial relations will continue to expand and benefit both countries. The critical unknown remains how long this relationship can continue along the current bifurcated and diverging tracks.

Chronology of Japan-China Relations October-December 2004

Oct. 1, 2004: Foreign Minister Machimura presents 2004 ODA White Paper to Cabinet, later tells Tokyo town hall meeting that ODA to China will continue to be reduced, though it’s premature to end China program.

Oct. 4, 2004: Vice FM Takeuchi tells reporters that a Koizumi-Hu Jintao meeting during ASEM meeting is unlikely due to Hu’s schedule; next opportunities are APEC in Chile and ASEAN Plus Three in Laos.

Oct. 9, 2004: FM Li and FM Machimura meet in Hanoi during ASEM talks; agree to working-level discussions on resource exploration in East China Sea.

Oct. 17, 2004: METI Minister Nakagawa tells TV audience that Japan has information that China has granted exploration rights within Japan's EEZ to Chinese companies.

Oct. 18, 2004: Ambassador Wang Yi in Tokyo speech asserts exploration is within waters in which Chinese claim to sovereignty is indisputable.

Oct. 18, 2004: Koizumi tells Lower House Budget Committee that he sees nothing wrong in paying appropriate respects to Japan's war dead.

Oct. 18, 2004: Ambassador Wang tells Japan's National Press Club that from his perspective paying respects at Yasukuni is not a domestic issue or cultural issue.

Oct. 19, 2004: Some 79 Diet members visit Yasukuni.

Oct. 19, 2004: Working-level talks on exploration issues announced by Beijing.

Oct. 20, 2004: Koizumi tells Upper House Budget Committee that he does not see Yasukuni visits as stumbling block in Japan's relations with China.

Oct. 25, 2004: Working-level talks in Beijing; Yabunaka Mitoji, director general of the Asian and Oceanic Affairs Bureau and Kodaira Noboyuki of the Agency for Natural Resources and Energy represent Japan; Cui Tiankai, director general for Asian Affairs represents China.

Oct. 26, 2004: Japanese and Chinese defense officials meet in Tokyo; first meeting of defense vice ministers since November 2000.

Nov. 4, 2004: Koizumi and Ambassador Wang meet at Prime Minister's Official Residence; details not released.

Nov. 9, 2004: FM Machimura announces that Japan and China agree to work toward Koizumi-Hu summit during APEC meeting in Chile.

Nov. 9, 2004: Vice FM Takeuchi and Ambassador Wang meet secretly in Tokyo to work out talking points for Yasukuni issue in the event of a Japan-China summit.

Nov. 10, 2004: Japanese patrol aircraft acquire and track Chinese submarine in Japanese territorial waters.

Nov. 10, 2004: Upper House of Diet releases report calling for eventual termination of China ODA program.

Nov. 12, 2004: FM Machimura calls Chinese Minister Cheng Yonghua to the Foreign Ministry to protest the incursion and demand an apology; Koizumi calls the incident “extremely regrettable.”

Nov. 13, 2004: Ambassador Wang in speech delivered in Wakayama prefecture appeals for calm on submarine incursion.

Nov. 16, 2004: China admits responsibility for the incursion; Vice FM Wu Dawei tells Ambassador Anami that the incident was the result of “technical errors.”

Nov. 16-17, 2004: Yamasaki Taku, special advisor to Koizumi, meets in Beijing with senior Chinese officials, including Vice FM Wu Dawei.

Nov. 21, 2004: Hu and Koizumi meet in Santiago, Chile during APEC meeting.

Nov. 25, 2004: Koizumi government presents draft of new National Defense Program Guidelines (NDPG) to LDP security project team.

Nov. 25, 2005: Chiba District Court rules against plaintiffs seeking damages for Koizumi’s visit to the Yasukuni Shrine in August 2001.

Nov. 26, 2004: FM Machimura tells Diet that time may be approaching to end China ODA program.

Nov. 28, 2004: In advance of meeting with Wen Jiabao, Koizumi tells reporters that it may be time to graduate China from the ODA program.

Nov. 29, 2005: Koizumi, Wen, and ROK President Roh (“Plus Three”) meet during ASEAN meeting in Vientiane, Laos.

Nov. 30, 2004: Koizumi and Wen meet in Vientiane during ASEAN Plus Three meeting.

Dec. 7, 2004: Japanese patrol aircraft find Chinese research ship *Kexue Yi Hao* within Japan’s claimed EEZ.

Dec. 8, 2004: Asian and Oceanic Affairs Director General Yabunaka protests Chinese ship presence in EEZ to Chinese Minister Cheng Yonghua.

Dec. 9, 2004: FM Machimura meets visiting Chinese State Councilor Zhang Qizheng; expresses concerns over ship incident; Chinese Foreign Ministry spokesperson Zhang Qiyue calls for calm, says ship activities are normal.

Dec. 10, 2004: Tokyo Gov. Ishihara Shintaro announces Tokyo government will begin fishing activities off Okinotori Island to assert Japanese sovereignty in the area.

Dec. 10, 2004: Vice FM Takeuchi telephones Ambassador Wang to protest; Minister Harada at Japanese embassy in Beijing calls on Foreign Ministry to protest; FM Machimura tells visiting Chinese State Councilor Zhang Qizheng that this kind of behavior will harm relations between the countries.

Dec. 10, 2004: Japan releases new NDPG.

Dec. 14, 2004: Machimura tells Lower House that government would like to push forward review of China ODA policy.

Dec. 15, 2004: Premier Wen meets in Beijing with Senior Vice FM Aizawa Ichiro and LDP and Democratic Party of Japan lawmakers; discussion focuses on North Korea.

Dec. 15, 2004: Tokyo High Court dismisses suit for compensation brought by four Chinese women forced to serve as sex slaves by the Imperial Army.

Dec. 16, 2004: Chief Cabinet Secretary Hosoda announces that Japan will grant visa to Taiwan's former President Lee Teng-Hui; China's Vice FM Wu calls in Japanese ambassador to protest; China's Ambassador Wang tells Vice FM Takeuchi that the decision is "incomprehensible and unacceptable."

Dec. 17, 2004: Lee Teng-hui applies for "sightseeing" visa.

Dec. 21, 2004: Third Japan-China Economic Partnership Consultation in Tokyo; Japan represented by Deputy FM Fujisaki Ichiro and China by Vice Minister of Commerce Min An.

Dec. 27, 2004: Lee arrives in Japan.

Dec. 27, 2004: China releases 2004 Defense White Paper calling for 14.2 percent increase in defense spending, the 16th consecutive year of double-digit increases.