

Japan-China Relations:

## **Political Breakthrough and the SARS Outbreak**

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Political relations broke out of the Yasukuni-induced deep freeze. Prime Minister Koizumi Junichiro met with China's President Hu Jintao in St. Petersburg, Russia, on May 31 during ceremonies marking the city's 300<sup>th</sup> anniversary. Less than three weeks later, during meetings of the ASEAN Regional Forum (ARF) in Phnom Penh, Foreign Minister Kawaguchi Yoriko invited China's new Foreign Minister Li Zhaoxing to visit Japan in August to commemorate the 25<sup>th</sup> anniversary of the Japan-China Friendship Treaty; Li accepted. Japan also successfully lobbied China to support Japan's admission to the multilateral U.S.-China-North Korea talks that opened in April in Beijing.

But across the board, the severe acute respiratory syndrome (SARS) epidemic in China dominated the relationship. Japan extended emergency medical assistance and personnel to help China cope with the epidemic. SARS also affected Japanese business operations in China as well as in Japan, which is now increasingly dependent on low-cost component imports from China. Throughout the quarter, economists repeatedly tried to assess the bottom-line impact of SARS. Through mid-May, the prospects were judged to range from bad to catastrophic. However, by the end of the quarter as the epidemic appeared to come under control, economic forecasts brightened.

### **To the St. Petersburg Summit**

On April 4, Japan's Ministry of Foreign Affairs announced that Foreign Minister Kawaguchi would visit China from April 6-8 and meet with Foreign Minister Li and Premier Wen Jiabao. The purpose of the trip was to review the state of bilateral relations with China's new leadership and to look ahead to the 25<sup>th</sup> anniversary of the Treaty of Peace and Friendship. Other agenda items included Iraq and North Korea.

Kawaguchi met with Li on April 6. Both agreed on the importance of "high-level" talks – shorthand for a Koizumi meeting with China's new president, Hu Jintao. Li stressed that both sides should draw on the lessons of the past as they worked to strengthen bilateral ties. Touching on Koizumi's visits to Yasukuni Shrine – the most recent in January, Li observed that the issue hurts the sensitivities of the Chinese people. Kawaguchi explained that the prime minister's visits are aimed at reaffirming that Japan will never again resort to war.

On North Korea, Kawaguchi asked for China's support in advancing a multilateral dialogue with Pyongyang, and Li replied that China was interested in cooperating with Japan on the matter. The ministers recognized the need for international cooperation in the reconstruction of Iraq. They also agreed to conclude a convention on consular relations (talks began in Beijing April 23) and to hold a security dialogue involving vice foreign ministers and vice defense ministers in June. Both emphasized the importance of expanding bilateral cooperation and coordination.

The next day, Kawaguchi met with Prime Minister Wen. Wen reiterated former President Jiang Zemin's formulation that it was necessary for both countries "to respect the principle of using history as a mirror while looking to the future." Significantly and unlike Jiang during his meeting with Koizumi in Mexico last October, Wen did not refer to Koizumi's visits to the Yasukuni Shrine, raising Japanese hopes for a "high-level" meeting in the not too distant future.

Kawaguchi also handed Wen a letter from the prime minister and formally invited him to visit Japan. Wen told the foreign minister that he appreciated the invitation and that he hoped that Koizumi would visit China when the "atmosphere is appropriate." Kawaguchi emphasized the importance of high-level exchanges in building "future-oriented bilateral relations" and said that Japan would do so based on "a correct understanding of history." Wen made clear that China's new leadership was "positive" about improving relations with Japan and intends to strengthen bilateral relations. Both agreed to expand contacts and exchanges in all fields between the two countries and to strengthen economic and commercial relations.

Prior to her meeting with Wen, Kawaguchi also met with former Foreign Minister Tang Jiaxuan, now a member of the State Council. On North Korea, Tang told the foreign minister that China is opposed to both nuclear weapons and the outbreak of war on the Korean Peninsula and favors a peaceful resolution of the issue. Like Wen, Tang did not raise the issue of Yasukuni.

In mid-April, at the invitation of the Chinese Communist Party, the president of Japan's Democratic Party, Kan Naoto, led an eight-member goodwill delegation to China. On April 16, Kan became the first Japanese political leader to meet with President Hu. During the meeting, which took place in the Great Hall of the People, the two leaders discussed Japan-China relations as well as North Korea. Kan spoke of the need to resume high-level Japan-China meetings, but Hu reiterated that such a meeting required an appropriate time and the right conditions. Kan carried the message back to Tokyo and the prime minister.

Prior to meeting Hu, Kan met with Wang Jiarui, chief of the Communist Party's External Liaison Department, on April 15. Wang addressed the issues of history and other problems in the bilateral relationship, which, he argued, were inhibiting the development of Sino-Japanese relations. Wang emphasized the importance of resolving Yasukuni and other related issues, such as Japanese history textbooks.

A month later, the secretaries general of Japan's three ruling parties, the LDP's Yamasaki Taku, New Komeito's Fuyushiba Testsuzo, and the New Conservative Party's Nikai Toshihiro traveled to China. On May 19, the delegation met with Hu. Yamasaki told Hu that he gave China "high marks" for its efforts earlier in the month supporting the trilateral U.S.-North Korea-China meeting. Yamasaki went on to ask that the multilateral format be expanded to include Japan, South Korea, and Russia. Hu concurred, noting that China wanted to expand the framework in the months ahead. Foreign Minister Li was reported as having "no objection."

The *Sankei Shimbun* reported that, when Yamasaki raised the importance of summit talks during the 25<sup>th</sup> anniversary of the Peace and Friendship Treaty (August-October), Hu told the delegation that he would meet with Koizumi May 31, where he would attend ceremonies marking the 300<sup>th</sup> anniversary of St. Petersburg. Yamasaki also handed Hu a personal letter from the prime minister.

Appearing in the Diet after their return from China, Yamasaki, Fuyushiba, and Nikai were photographed wearing anti-SARS surgical masks.

### **The St. Petersburg Summit**

Koizumi and Hu Jintao met in St. Petersburg May 31. In contrast to Koizumi's October meeting with Jiang Zemin at the APEC summit in Mexico and the chill in relations generated by his January visit to the Yasukuni Shrine, the dialogue was marked – noticeably in the Japanese press – by what was not said – the Y word.

Instead, Hu took a future-oriented approach to the relationship, saying that to deepen relations both countries should learn from history and morality. Hu noted that antagonism had marked only a brief period in the two countries' 2,000-plus year history of good relations. Using history as a mirror, the peaceful development of friendly relations would contribute to international peace and stability. Hu argued that political leaders in both countries should keep this strategic perspective in mind.

With respect to North Korea, Hu said that the nuclear issue as well as Japan's issue of abductees should be peacefully settled through dialogue. He expressed his understanding of Japan's wish to participate in the U.S.-China-North Korea dialogue and left himself open as to the ultimate shape of the table – the important thing was to keep the dialogue going.

Koizumi took the opportunity to push Japanese commercial interests with respect to the high-speed Beijing-to-Shanghai railroad now under study, noting that the award of the contract to Japan would significantly broaden the possibilities for Japan-China cooperation. At present, Beijing is considering both Germany's linear technology and Japan's *shinkansen*. Hu said that, if a decision is to be reached, he would like to factor in China-Japan cooperation.

## SARS

On April 4, Japan's Foreign Ministry issued a travel warning for Singapore, Hanoi, Toronto, Macau, Taiwan, and Shanxi Province in China. The warning urged travelers and those living in those locations to "take utmost care or caution because there is an epidemic of an unknown disease." On April 20, the travel warning was extended to Inner Mongolia; at the same time, travelers to Beijing were asked to defer visits other than those deemed "essential or urgent."

As SARS-related deaths continued to mount in China, the Japanese government announced April 25 that it was sending masks and protective clothing to China. That evening, at his official residence, Koizumi told reporters that he wanted to do what he could to cooperate in meeting Chinese requests for assistance.

On May 2, Japan's ministers of health, transport, science and technology, and the senior vice minister of foreign affairs met at the prime minister's residence to map out a SARS counter offensive. On May 7, the prime minister instructed Health Minister Sakaguchi Chikara to take all steps necessary to establish a SARS prevention system in Japan. Koizumi announced that Japan would extend additional assistance to China. The next day, the Health Ministry sent face-masks, preventive clothing and equipment, and medical instruments, amounting to approximately ¥18 million. At the presentation ceremony in Beijing, the deputy chief of China's Health Ministry's International Cooperation Office told a group of Japanese embassy officials that he regarded the assistance as an "expression of Japan-China friendship."

On May 9, the Foreign Ministry announced that, in response to a request from Beijing, Foreign Minister Kawaguchi had informed her Chinese counterpart that Japan would dispatch a four-man Disaster Relief Team to China to help deal with the epidemic. The team, composed of two doctors accompanied by officials from the Foreign Ministry and the International Cooperation Agency, arrived on May 11.

The same day, Health Minister Sakaguchi announced that Japan would send an additional ¥1.5 billion of assistance. That day, China's ambassador Wu Dawei told LDP Secretary General Yamasaki that China appreciated Japan's "prompt and large-scale assistance." Wu also told Yamasaki that during his visit to China, scheduled for the following week, the delegation of the three ruling parties would meet President Hu.

China's appreciation for Japan's assistance did not, however, extend to Taiwan. When Sakaguchi suggested that Taiwan might participate (as an observer) in World Health Organization meetings on SARS, on May 13, the Chinese Foreign Ministry made clear that WHO membership was limited to sovereign states – Taiwan did not qualify.

## **China and North Korea**

The April 6 Kawaguchi-Li meeting in Beijing set the stage for cooperation with respect to North Korea.

During his April 16 meeting with Hu, Democratic Party President Kan raised the issue of Japan's inclusion, along with South Korea and Russia, in multilateral talks aimed at resolving the North Korean nuclear issue. Hu told Kan that he understood Japan's concerns and that China also strongly supported the denuclearization of the Peninsula. Hu went on to observe that the important thing was to get the U.S. and North Korea talking without being a stickler for any particular format. Later, Kan publicly had good words to say about China's involvement, noting that, should China ask North Korea to terminate its nuclear program, China's position would be the same as Japan's.

A day earlier, the Chinese Foreign Ministry's spokesperson, when asked whether China was opposed to the participation of Japan and Russia in the multilateral talks, made clear that China "has never opposed the participation of relevant countries in multilateral talks on the Korean nuclear question." China was "open to any proposal that facilitates a peaceful settlement."

On April 24, the *Tokyo Shimbun* reported that Chinese diplomatic sources were floating the idea of a joint U.S.-China-Russia-Japan guarantee of North Korea's security in exchange for Pyongyang's surrender of its nuclear program and a commitment not to export nuclear technology to third countries.

On April 29, Hu met with visiting Socialist Party Chairperson Doi Takako. Hu said that the China-U.S.-North Korea talks, which began April 23, were dealing with difficult issues not susceptible to resolution at a single meeting. Accordingly, China favored a continuation of the talks and had communicated that message to Washington and Pyongyang. Doi also met with former Foreign Minister Tang. Tang told her that Beijing had been in the dark about North Korea's nuclear program because Pyongyang had never informed China about it.

On May 11, China's Vice Foreign Minister Wang Yi traveled to Tokyo to brief Foreign Ministry officials on the China-U.S.-North Korea meeting and to exchange views on the future course of the talks.

The foreign ministers met again during the ARF meeting, June 17-18 in Phnom Penh. In the meetings, Kawaguchi obtained China's support for Japan's admission to the multilateral U.S.-China-North Korea talks. She also made clear Japan's interest in cooperating with China to deal with the SARS epidemic and invited Li to visit Japan in August to commemorate the 25<sup>th</sup> anniversary of the Japan-China Friendship Treaty. Li accepted.

Even as consultations continued on Tokyo's participation in the U.S.-China-North Korea talks, differences with Beijing arose over China's vote against the UN resolution condemning North Korea's human rights record, including the kidnapping of Japanese citizens. Nine countries, including Vietnam, joined China in opposition – all recipients of Japan's Overseas Development Assistance (ODA). On June 11, the Foreign Ministry announced that, during the week of June 15, it would be calling in ambassadors of the 10 countries to protest the vote. On June 16, Koizumi told an Upper House Audit Committee that it was important to determine if China has "appreciated" Japan's ODA and was actually in need of it.

### **Economic Relations: the SARS Affect**

On April 23, Japan's trade ministry released official trade statistics for 2002, a year in which for the first time Japan's imports from China surpassed those from the United States. At the same time, Japan's exports to China grew 39.3 percent.

Shortly thereafter, China's government-related think tank, the National Information Center, looked at China's economic prospects in light of the SARS epidemic. The Center noted that 2003 first quarter economic growth recorded a 9.9 percent increase over 2002 but that second quarter figures were much less promising and that, overall for 2003, SARS could lower GDP 1.5 percent to an estimated 7.5 percent. Against this background, stories on the economic impact of SARS, both at the macro and micro levels, dominated Japanese newspaper reporting on China – not only the business page but often the front page as well.

On April 17, the Japan External Trade Organization (JETRO) released the results of a survey of Japanese companies operating in China. Those operating in the south, mainly in Guangdong, projected that leading economic indicators would fall from the March number of 13.4 percent to 7.8 percent in the quarter, while those centered in and around Beijing saw numbers falling from 23.5 to 13.2. The JETRO survey indicated that economic concerns focused on the tourist and service industries, business travel, and the possible closure of factories due to the epidemic. At the end of April, JAL reported that bookings to China and Hong Kong were down 33 and 66 percent, respectively. At the same time, major tourist companies, JTB and Kinki Travel, suspended package tours to Beijing.

Golden Week, with thousands of Japanese returning from China for the holidays, posed difficult policy decisions for companies and the government. Many Japanese companies, including Toyota, Tomita Trading Company, and Oki Electric, decided to bring their employees home for the holidays to protect them from the rapidly spreading epidemic. The surge of Golden Week travelers from China, in turn, led the government to ask the returnees to accept a voluntary quarantine for 10 days and to wear masks in public. Temperature sensing devices were set up in all airports to test all travelers from China.

The economic low-point came on May 21, when the lead story in the *Nihon Keizai Shimbun* announced that Matsushita had shut down production in two Beijing plants because five local Chinese employees had been infected with SARS. The decision to suspend operations, because of SARS, marked a first for major Japanese companies operating in China. The story went on to speculate the SARS would force a rethinking of China-based corporate strategies.

On June 10, the *Asahi Shimbun* published the results of a survey of Japan's major companies, conducted May 25 through June 5. Fifty companies were polled and 48 responded. Of the respondents, close to 80 percent saw a decrease in sales as a result of the spread of SARS. Three out of four, or 36 companies, responded that SARS had had an affect on their operations. Most frequently cited problems involved postponed business trips, stalled commercial negotiations, and decreased sales. Shiseido Cosmetics experienced a 20 percent drop in sales; Furukawa Electric put off opening a new plant in China; and three companies, Matsushita Electric; Asahi Kasei and Pacific Cement temporarily shut down operations.

### **Yet even in the worst of times, SARS provided economic opportunity.**

An early May *Asahi* report from Shanghai noted that China's already booming automobile market was receiving an additional health-related boost from SARS. Fearing infection from traveling on public transportation, Shanghai residents were visiting Japanese automobile showrooms in record numbers. For Honda, May sales doubled over the previous year, while Mazda's increased 4.5 times. Also benefiting from the epidemic were Japanese manufacturers of air purifiers.

In Hong Kong, the Japan Chamber of Commerce petitioned the Japanese consulate for a relation of the Health Ministry's regulations on two-way travel to and from Japan. On June 7, the *Asahi* reported that Toyota had decided to send 17 employees back to China and that employees of Japanese banks were returning to Beijing. Meanwhile, JTB announced the resumption of tours to Hong Kong.

### **Security**

On May 15, the Lower House of the Japanese Diet passed a legislative package of three bills comprising the government's emergency legislation, which defines roles of the government authorities, including the Self Defense Forces, in the event of an attack on Japan. Two weeks later, on June 6, the Upper House adopted the legislative package. In each instance, the response from Beijing was restrained.

On the day before the Lower House took up the legislation, Chinese Foreign Ministry sources told the *Asahi Shimbun* that China believed that Japan should continue to adhere to its defense-oriented policy. This would serve Japan's long-term interests as well as the peace and stability of the Asia-Pacific region. A researcher at Beijing University told the newspaper that "even today, the fear of a revival of Japanese militarism remains strong among the Chinese people." At the same time, he noted that the emergency legislation is

related fundamentally to the defense of Japan.” Compared to the reaction that greeted the passage of the law governing Contingencies in the Area Surrounding Japan, China’s response to the emergency legislation is, he observed, “relatively mild.”

Jiang Lifeng, director of the Institute of Japanese Studies at the Chinese Academy of Science, expressed his understanding of the new law, telling the *Asahi* that “there’s no way to predict what North Korea will do.” Nevertheless, a Communist Party source told the *Asahi Shimbun* on June 6 that passage of the legislation is a breakthrough event and that many are concerned that this “will lead to a strengthening of a military trend in Japan.”

### **Back to the Senkakus**

The second quarter of 2003 ended as the first quarter began – in the Senkakus. In January, Beijing protested a decision by Japan to lease three privately held islands in the island chain. At the end of June, Chinese activists from the mainland and Hong Kong sailed into the islands’ territorial waters and attempted to land. Their efforts were blocked by Japan’s Coast Guard and, on June 24, the Chinese boats withdrew. On the same day, Vice Minister of Foreign Affairs Takeuchi Yukio told the press that Japan, through diplomatic channels, had asked the Chinese government to persuade the protestors to end their activity.

## **Chronology of Japan-China Relations April-June 2003**

**April 4, 2003:** Ministry of Foreign Affairs issues SARS travel warning for China, Macau, Taiwan.

**April 6, 2003:** Foreign Minister Kawaguchi Yoriko meets with Chinese counterpart FM Li Zhaoxing.

**April 7, 2003:** FM Kawaguchi meets with Premier Wen Jiabao.

**April 7, 2003:** FM Kawaguchi meets with former FM Tang Jiaxuan.

**April 15, 2003:** Kan Naoto, president of Japan Democratic Party, meets with Wang Jiarui, chief of the Chinese Communist Party’s External Liaison Department.

**April 16, 2003:** Kan meets with China’s President Hu Jintao.

**April 20, 2003:** Ministry of Foreign Affairs extends SARS travel warning to Inner Mongolia.

**April 23, 2003:** Japan’s Trade Ministry announces trade statistics for 2002; imports from China exceed imports from the U.S. for the first time.

**April 25, 2003:** Japanese government announces anti-SARS assistance, sending surgical masks, protective clothing, for China.

**April 26, 2003:** ASEAN Plus Three meet in Kuala Lumpur, Malaysia on SARS.

**April 29, 2003:** Japan Socialist Party Chairperson Doi Takako meets with President Hu and former FM Tang.

**April 29, 2003:** Aso Taro, head of the LDP's policy board, in Taipei recommends Japanese-Taiwanese discussion of security issues.

**April 29, 2003:** ASEAN-China emergency summit on SARS in Bangkok.

**May 2, 2003:** Japanese government meets to develop anti-SARS strategy.

**May 7, 2003:** PM Koizumi instructs Health Minister Sakaguchi to establish SARS-prevention system in Japan.

**May 8, 2003:** Ministry of Health sends additional SARS assistance to China.

**May 9, 2003:** MFA announces that Japan will send four-man Disaster Relief Team to China. They arrive May 11.

**May 11, 2003:** Ministry of Health announces additional relief package for China.

**May 11, 2003:** China's Vice FM Wang Yi travels to Tokyo to brief Japan on U.S.-North Korea-China talks.

**May 15, 2003:** Lower House of Japan's Diet passes emergency legislation.

**May 19, 2003:** Secretaries general of Japan's three ruling parties meet with President Hu.

**May 21, 2003:** Matsushita announces closing of two plants in China as result of SARS.

**May 31, 2003:** PM Koizumi meets with President Hu in St. Petersburg, Russia.

**June 5, 2003:** China announces antidumping case against Japan and four other countries over import price of raw materials used in making of nylon.

**June 6, 2003:** Upper House of Japan's Diet passes emergency legislation.

**June 9, 2003:** MFA cancels travel warning for all areas of China except Beijing and Guangdong.

**June 10, 2003:** China announces antidumping case against Japan, U.S., ROK over chemicals used to produce polyurethane.

**June 17, 2003:** FM Kawaguchi and Li meet at ASEAN Plus Three meeting in Phnom Penh, Cambodia.

**June 17, 2003:** China announces support for Japanese and South Korean participation in multilateral talks with North Korea.

**June 23, 2003:** Japanese Coast Guard escorts 13 Chinese protesters from Senkaku Islands' waters.