



The Future of Japan-China Relations

Diplomatic History of Japan-China Relations: Navigating between Power Balance, Economic Interests and Domestic Politics

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Introduction

Over the past seven decades, Japan-China relations have undergone dramatic structural changes, vacillating between cooperation and confrontation. Currently, the two countries are intertwined economically, connected culturally, and have close ties between people. Yet political and security distrust is deepening simultaneously, complicated by historical memories and territorial disputes. Cold politics, warm economics, and deep social and cultural exchanges are the salient features of bilateral relations.

From Japan's perspective, three main factors have primarily contributed to the formation of the current bilateral relationship. First, the external environment—changing distributions of political and economic power and U.S. policy towards China in particular—has played a decisive role in defining the trajectory of Japan-China relations since the end of World War II. The Japan-China relationship has never been strictly bilateral. Japan's China policy is continually evolving in response to U.S. global strategy, and Japan has been criticized for a lack of strategic autonomy.

Japan's economic relationship with China is another key issue shaping Japan's strategic considerations. Both the Japanese government and private business entrepreneurs share a deep-rooted view that Japan's economic prosperity requires China's raw materials and that China's vast market has helped promote stable economic relations.

Finally, domestic politics in Japan and public opinion also serve as driving forces in the bilateral relationship. Now that the population of people who have never experienced war accounts for more than 80 percent of the total population,² the Japanese remember the Pacific War with less remorse and focus more on Japan's progress as a peaceful nation over the past 70 years.³ As a consequence of these changes in historical memory, in contrast to the immediate postwar period when sentiments of war atonement were widespread, current views tend to favor “apology fatigue” and help explain polling that shows increased distrust of China. These

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² According to the Ministry of Internal Affairs and Communications, the “post-war population” in 2018 has exceeded 83% of the total population.

³ According to a poll conducted by Nippon Television Networks in July 2015, 45.2% of the respondents believed that the most important issue for Prime Minister Abe to address in the 70th anniversary of the WW II should be “Japan's efforts as a peaceful nation”, while only 11.9% answered “remorse for the war”.



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changing perceptions of China, combined with increased support for liberal democracy, translate into public support for recent changes in Japan's strategic choices.

Will economic and social exchanges continue to thrive in the face of growing political and security tensions? To answer this question, this paper first reviews the diplomatic history of the bilateral relationship. The following section assesses the key issues that are shaping current dynamics in Japan-China relations and explores the possible future trajectory for bilateral ties. The final section introduces policy recommendations on how Japan can manage the "China challenge" in coordination with the United States and other countries.

Historical Background

"Neighboring countries separated by a strip of water" is a vivid old saying that illustrates the geographic proximity of two major powers in the world: Japan and China. How to cope with China, the giant across the sea, has always been a pressing but challenging diplomatic priority for Japan. The evolution of the bilateral relationship can be divided into the following three periods.

Confrontation between the United States and China (1949-1972)

During the period from 1949 to 1972, Japan-China relations were largely determined by U.S. China policy, and Japan established diplomatic relations with the nationalist regime in Taipei (hereinafter referred to as "Taiwan") while attempting to maintain economic ties with the People's Republic of China (hereinafter referred to as "China").

After the declaration of defeat in August 1945, the Japanese government's most urgent strategic task was to secure Japan's existence as a nation and revitalize its economy. The Yoshida Doctrine, developed by Prime Minister Shigeru Yoshida, emerged as the foreign policy strategy to meet Japan's national interests of the time.

Three significant diplomatic orientations were embedded in this Yoshida Doctrine.⁴ First, the doctrine defined Japan as a member of the Western democratic camp. Second, the U.S.-Japan Security Treaty cemented Japan's dependence on the United States for security guarantees while the provision of military bases to the United States further positioned Japan as the forefront of U.S. military strategy in East Asia. Third, Prime Minister Yoshida laid the foundation for Japan to become a trade-dependent economic power by prioritizing economic reconstruction over rearmament.

⁴ Makoto Iokibe, "Fifty Years of Japanese Diplomacy (日本外交 50 年)", *The Kokusai Mondai (International Affairs)*, Vol.500, November 2001, p.10.



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Despite attacks from both the right wing which sought constitutional revision and rearmament and the left wing which advocated unarmed neutrality, the Yoshida Doctrine took root as the primary principle of post-war Japan. During the Cold War period, the pacifist constitution played a vital role in two conflicting security concerns regarding Japan's alliance with the United States that were triggered by the Yoshida Doctrine: fear of entrapment and abandonment. The fear of being abandoned by the United States led Japan to show a more substantial commitment to the alliance,⁵ while Article Nine of the Japanese Constitution guaranteed that Japan would not be directly involved in wars waged by the United States, thus alleviating Japan's fear of entrapment.

Japan's incorporation into the Western camp and the outbreak of the Korean War left Japan with little room to maneuver in its relations with the newly established People's Republic of China. After signing the U.S.-Japan Alliance Treaty and the San Francisco Peace Treaty in September 1951, Japan recognized Taiwan as the sole legitimate government representing China. In April 1952, the Sino-Japanese Peace Treaty was signed in Taipei.

Japan's military alliance with the United States generated concerns in the Chinese Communist Party (CCP) that the United States would use Japan as a steppingstone to aggression against China. To eliminate Japan's military threat, the CCP sought to establish diplomatic ties with Japan in an "accumulating manner (tsumiage-houshiki)" through the separation of politics and economics (seikei bunri). On the Japanese side, expectations for the Chinese market surged and arguments for trade with China became more prevalent. With this momentum, the first Japan-China private trade agreement was signed in June 1952 between Hanchen Nan, chairman of the China Council for the Promotion of International Trade, and three members of the Japanese Diet, Tomi Kora, Kei Hoashi, and Kisukey Miyakoshi.

Along with these economic interactions, cultural and people-to-people exchanges took place as well, albeit to a limited extent. From the end of 1952 to around 1953, 26,000 Japanese prisoners had been repatriated to Japan.⁶ Despite the Cold War context, exchanges between the two countries under the name of "humanitarian" and "economic exchanges" undoubtedly cultivated channels for subsequent cooperation and pro-China sentiment in Japan.

Bilateral trade hit rock bottom when China introduced a radical foreign policy during the Great Leap Forward Movement, but Japan and China signed the Memorandum of Comprehensive Trade (LT Trade Agreement, an acronym for the signatories Chengzhi Liao and Tatsunosuke Takasaki) in 1962.⁷ Throughout the 1960s, bilateral trade was carried out through "friendly enterprises" under the framework of a semi-official trade agreement.

⁵ Victor D. Cha, "Abandonment, Entrapment, and Neoclassical Realism in Asia: The United States, Japan, and Korea", *International Studies Quarterly*, June 2000, Vol.44, No.2, pp.262-291.

⁶ *Yearbook of the United Nation*, <https://www.unhcr.org/4e1ee7720.pdf>

⁷ The agreement was renewed as the MT agreement in 1968.



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The "1972 Framework" (1972-mid-1990s)

U.S. president Richard Nixon's visit to China and Japanese Prime Minister Kakuei Tanaka's visit to China in 1972 dramatically altered the geopolitical landscape of Asia. For the first time in history since World War II, the United States, Japan, and China faced a common security threat: the Soviet Union.

The 1980s and early 1990s witnessed the most intense post-war confrontation between the United States and Japan over Japan's financial and economic system,⁸ while Sino-Japanese relations were at their closest during this same period. The "1972 framework" refers to a bilateral structure in which the leaders of both Japan and China shared a common national goal of maintaining friendly relations. The "1972 framework" was facilitated by war atonement sentiments and the political conviction that China's economic modernization was in Japan's national interest, along with the fundamental structure of the U.S.-Japan-China strategic relationship, which laid the foundation for such a development.

On September 27, 1972, Japan and China normalized their diplomatic relations by signing the Treaty of Peace and Friendship, and Japan severed its ties with Taiwan. China's position on diplomatic normalization was explicitly specified in the "Takeiri Note," a draft joint statement given to the chairman of the Komeito Party, Yoshikatsu Takeiri, by Zhou Enlai during Takeiri's visit to China. China's draft states that "the Japanese government fully recognizes the three conditions for the normalization of diplomatic relations between Japan and China,"⁹ acknowledges that the People's Republic of China is the only legitimate government representing China, and that the Chinese government waives its claim to war reparations and does not object to the Japan-U.S. Security Treaty." This draft by the Chinese side was signed into the Japan-China Joint Statement without any significant revisions.

China accepted that the U.S.-Japan Alliance would remain in force because it believed Kissinger's interpretation¹⁰ that the U.S.-Japan Alliance could be the "cap in the bottle" of Japanese militarism and effectively counter the military threats from the Soviet Union.

It should be noted that the Senkaku/Diaoyu Islands issue was not on the agenda of the negotiations for the Treaty of Peace and Friendship. This was because Deng Xiaoping, who played a leading role in the Chinese side's negotiations for the treaty, insisted on shelving the

⁸ Gerald L. Curtis, "U.S. Policy toward Japan from Nixon to Clinton: An Assessment", Gerald L. Curtis ed., *New Perspectives on U.S.-Japan Relations*, Tokyo: Japan Center for International Exchange, 2000, pp.1-38.

⁹ The three conditions for the diplomatic normalization refer to the conditions proposed by China when Komeito delegation visited China in June 1971. The three conditions were: (1) recognition of the PRC as the sole legitimate government representing China; (2) recognition of Taiwan as an inalienable part of Chinese territory; (3) abrogation of the illegal and invalid Japan-China Peace Treaty with the Taipei government.

¹⁰ William Burr, Henry Kissinger ed., *The Kissinger Transcripts: The Top-Secret Talks with Beijing and Moscow*, New York: New Press, 1998.



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territorial issue, and the Japanese government also took the position that the Senkaku Islands were historically Japanese territory and that the territorial issue itself did not exist.

The signing of the Japan-China Treaty of Peace and Friendship and the U.S.-China Joint Statement accelerated the vigorous development of political, economic, and social relations between Japan and China. In December 1979, during Prime Minister Masayoshi Ohira's official visit to China, an agreement on cultural exchanges and a memorandum on Official Development Assistance (ODA) to China were signed. Japan's first ODA loans included funding for six projects, 50 billion yen (in 1979), with an annual interest rate of three percent and repayment in 30 years.

For China, economic cooperation with Japan was considered the top national agenda ("Guoce"), and Japan was perceived as a role model for China's reform and opening up policy. The Japanese government firmly believed that "ensuring the stable development of China will lead to stability in Asia, which is also in Japan's national interest."¹¹ Japan's ODA provided valuable funds to China in its early stage of reform and opening and laid a solid foundation for the stability of Japan-China relations in the 1980s. The Japanese foreign policy towards China differed from that of other Western countries after the Tiananmen Square crackdown. Based on the official understanding that "it was undesirable to isolate China unnecessarily from the perspective of the international community,"¹² in 1991 the Japanese government resumed ODA before other Western countries eased economic sanctions on China. A strong sense of war atonement, prevalent among the Japanese public, also promoted this momentum.

Japanese soft power also contributed to the close relationship between the two countries. Unlike European countries and the United States, Japan had invested actively in the Chinese market, and since the early 1980s Japanese companies such as Toyota and Hitachi became well known in Chinese society. In addition, Japanese culture, including animations such as "Mr. Ikkyu" and television dramas starring the actress Momoe Yamaguchi had taken Chinese society by storm.

Undeniably, there was no shortage of conflicts in the bilateral relationship during this period. In June 1982, the Chinese Ministry of Foreign Affairs filed an official protest after newspapers in Japan reported that the Ministry of Education had changed language referencing the war period in Japan's high school textbooks from "invasion" of China to "advance." Although no modifications were actually made that year, the Japanese government promised to amend the textbook guidelines to accommodate China's concerns.

¹¹ Public Speech by Prime Minister Ohira Masayoshi during his Visit to China on December 7, 1979, <https://worldjpn.grips.ac.jp/documents/texts/exdpm/19791207.S1J.html>

¹² Japan's *Diplomatic Bluebook* 1992, <https://www.mofa.go.jp/mofaj/gaiko/bluebook/1992/h04-contents-1.htm>



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Prime Minister Yasuhiro Nakasone's visit to the Yasukuni shrine in 1985 evoked anti-Japanese demonstrations led by students across China. After that, Nakasone refrained from visiting the Yasukuni shrine so that his longtime friend and pro-Japanese CCP General Secretary Yaobang Hu could retain his position in the Party.

China also harshly criticized Japan's position on the Taiwan issue. The Guang Hua Dormitory in Kyoto was once a Chinese student dormitory, but the Japanese government used it during the war and subsequently transferred ownership to Taiwan's Guomindang government in 1952. There were major differences between Japan and China on this issue. Japan sought China's understanding of the nature of Japan's judicial independence, while China required strict compliance with the "one China" principle. The issue was contested repeatedly in court, and the Kyoto District Court (1977), the Osaka High Court (1982), the Kyoto District Court (1986), and the Osaka High Court (1987) all ruled in Taiwan's favor.

In the early 1990s, rapid increases in Chinese economic growth and military spending led to the emergence of the "China threat" theory in Japan. However, as Prime Minister Kiichi Miyazawa stated in 1995, Japan's official position was that "China will eventually become an economic power and a military power. However, we cannot contain it, nor should we think about it. Rather, it is important to engage with China and bring it into our dialogue."¹³

In sum, despite political disagreements regarding textbooks and historical issues in the 1980s, Japan-China relations flourished politically, economically, and culturally under the 1972 framework.

The Post-Cold War Era (The mid-1990s~)

Since the mid-1990s, Japan-China relations have undergone another structural change. Japan's policy toward China began to be driven primarily by security concerns. Now, Japan is adept at mobilizing the U.S.-Japan Alliance to counter China's growing political and military power. The waning sentiment of war atonement, increased concern about China's military ambitions, and support for democracy among the Japanese public provided solid support for government policy.

Ties between Japan and China began to unravel rapidly after the mid-1990s. Today, China has become Japan's biggest security concern as its military capability is growing rapidly. The most prominent example is increased tension between Japan and China over the Senkaku Islands in the East China Sea. China's harsh response to Japan's nationalization of three of the eight Senkaku Islands in September 2012 and China's subsequent escalation of coercive

¹³ "Changing Environment, Japan's Choice Japan-U.S. Security Roundtable (変わる環境、日本の選択は？日米安保座談会)", *Asahi Shimbun*, November 21, 1995.



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behavior in the waters surrounding the Senkaku Islands to undermine Japan's administration of those islands, has profoundly affected Japan's threat perceptions of China. For the first time since the end of the Second World War, Japan has faced the need to defend its territory.

Chinese economic coercion has also affected Japan's threat perception. In 2010, China banned the export of rare earths to Japan after a Chinese fishing boat collided with a Japanese patrol boat and the Chinese captain was arrested. China's economic sanctions sounded the alarm about Japan's dependence on China's economy and raised Japan's awareness of economic security as a policy priority.

To alleviate security and economic threats, the Japanese government developed a "conengagement" China policy, combining elements of deterrence and cooperation. Japan opted to counter China's military might while maintaining bilateral economic ties and addressing concerns about China's non-market policies by strengthening the global trading system.

On the security front, Japan decided to enhance its military capabilities while maintaining an exclusively defense-oriented policy, strengthen the U.S.-Japan Alliance, and push for security cooperation with other like-minded countries.

The geopolitical landscape in East Asia began to change in the mid-1990s. President Bill Clinton and Prime Minister Ryutaro Hashimoto issued the "Japan-U.S. Security Joint Declaration - Alliance for the 21st Century" in April 1996, and the "New Guidelines for U.S.-Japan Defense Cooperation" in September 1997.¹⁴ After years of drift, U.S.-Japan military cooperation had become institutionalized. The bilateral alliance had now become the solid cornerstone of Japan's defense strategy and U.S. security policy in the Asia-Pacific region.

U.S.-Japan defense cooperation has evolved further in recent years as North Korean provocations and Chinese pressure made the regional security environment even more complex. To strengthen U.S.-Japan military cooperation, the Abe Cabinet passed a resolution in July 2014 to allow Japan to exercise collective self-defense in certain circumstances and revised the three principles of defense equipment transfer to promote defense industrial cooperation with other countries. Japan and the United States also updated the Guidelines for U.S.-Japan Cooperation in 2015 to reflect these changes, and the Diet passed two security-related laws that year to provide a legal foundation for Japan's defense policy reforms.

One of the major components of the revised Guidelines was the creation of the Alliance Coordination Mechanism (ACM), which would enable the two countries to coordinate more closely even in "gray zone" scenarios such as Chinese coercion around the Senkaku Islands that create tension but do not rise to the level of military conflict. President Obama then pledged in

¹⁴ For details of "Japan-U.S. Security Joint Declaration", please refer to https://www.mod.go.jp/e/d_act/us/anpo/19970923e.html.



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2014 that Article 5 of the U.S.-Japan Security Treaty, which obligates the United States to defend Japan and territories under its administrative control, applies to the Senkaku Islands. Increasing security concerns about China have erased Japan's anxiety about the U.S.-Japan Alliance. Ironically, instead of worrying about entrapment, Japan is now more concerned about abandonment and is strengthening U.S.-Japan defense cooperation accordingly.

This continued fear of abandonment has also prompted Japan to strengthen its security ties with other nations. Under the framework of "Free and Open Indo-Pacific," (FOIP) Japan has worked to enhance cooperation among the Quadrilateral Security Dialogue (QUAD) countries; signed Acquisition and Cross Servicing Agreements with the United Kingdom, Australia, and other nations; and helped Southeast Asian countries enhance their military capabilities.

On the economic front, Japan has taken the initiative to boost high-quality trade rules by concluding multiple trade agreements such as the Japan-European Union Economic Partnership Agreement (Japan-EU EPA), Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), and Regional Comprehensive Economic Partnership (RCEP). Japan has also made efforts to stabilize its political relations with China and to ensure that mounting distrust does not adversely affect economic ties. Bilateral ties thawed after 2014 when the leaders of Japan and China began to make concerted efforts to improve bilateral relations. Prime Minister Abe and President Xi Jinping held a summit in November 2014 on the sidelines of an Asia-Pacific Economic Cooperation (APEC) meeting in Beijing. This was "the first step for the two countries to return to the starting point of the mutually beneficial strategic relationship and improve relations between the two countries."¹⁵

In October 2018, when Prime Minister Abe visited China, the two countries signed 52 memorandums on private economic cooperation in third countries under the Belt and Road Initiative (BRI). Albeit Japan's participation in the BRI is conditional,¹⁶ this symbolic signal further improved the bilateral political environment. Japan's efforts to promote "functional cooperation" with China have borne fruit. Throughout the post-Cold War period, economic relations have remained stable. According to Japan External Trade Organization (JETRO) statistics, bilateral total trade volume in 2013, one year after Japan's nationalization of the Senkaku Islands, was \$311.99518 billion dollars, down 6.5 percent from the previous year,¹⁷ but total trade volume in 2014 increased to \$343.550884 billion. In 2018, the total trade volume reached \$353.722934 billion dollars.¹⁸

¹⁵ Beijing APEC Summit Meeting (北京 APEC 首脳会議出席等 - 2 日目-), November 10, 2014, https://www.kantei.go.jp/jp/96_abe/actions/201411/10apec.html.

¹⁶ The four pre-conditions for cooperation are: (1) Openness; (2) Transparent and fair procurement ;(3) Economic efficiency; (4) Financial soundness of the borrowing countries.

¹⁷ Japan-China Trade in 2013, <https://www.jetro.go.jp/world/reports/2014/07001568.html>

¹⁸ Japanese Trade and Investment Statistics, Japan External Trade Organization, accessed March 30, 2021, <https://www.jetro.go.jp/en/reports/statistics.html>.



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Public opinion in Japan shows a trend of "cold politics and hot economics," indicating support for Japan's foreign policy. Today, people who have never experienced war account for more than 80 percent of the total population. Not as many people have feelings of war atonement anymore; instead, there is a growing sense of "apology fatigue" among the Japanese. This demographic change has made Japan less likely to accommodate China's diplomatic pressure on historical issues, and that is why the number of Japanese who have no affinity for China exceeded the number of those who do (Figure 3 below) when China strongly condemned Prime Minister Koizumi's visit to Yasukuni Shrine in the early 2000s.

Lawmakers and the public have recently become increasingly vocal about China's political system and suppression of human rights. After China's National People's Congress enacted a national security law in Hong Kong in 2020, there was pressure for a resolution calling for the cancellation of President Xi Jinping's state visit to Japan by two foreign affairs-related parliamentary committees, which contrasted sharply with the position of Liberal Democratic Party (LDP) Secretary General Toshihiro Nikai, generally considered the leading pro-China politician. This conflict within the LDP is indicative of a growing political trend in Japan—more politicians are willing to challenge China's actions in order to defend Japan's national interests and democratic values.¹⁹

In February 2021, two new project teams were established within the LDP Foreign Affairs subcommittee: "Taiwan Project Team" and "Human Rights Diplomacy Project Team." The former discusses Japan-Taiwan security, economic, and cultural relations, while the latter discusses China's crackdown in Xinjiang and the situation in Hong Kong. These two teams are supposed to serve as two pillars to further strengthen Japan's global diplomatic position.

Meanwhile, public opinion surveys show that since 2000, China has replaced the United States as the most important country for the Japanese economy (Figure 1 below). Rhetoric about China as an economic threat appeared in 2001 against the backdrop of trade disputes in textiles and agricultural products but disappeared the following year.²⁰ At that time, Prime Minister Junichiro Koizumi strongly advocated for the importance of economic ties between the two countries as an opportunity to support Japanese industry. Since then, China has been perceived as an indispensable manufacturing base and consumer market for Japan.

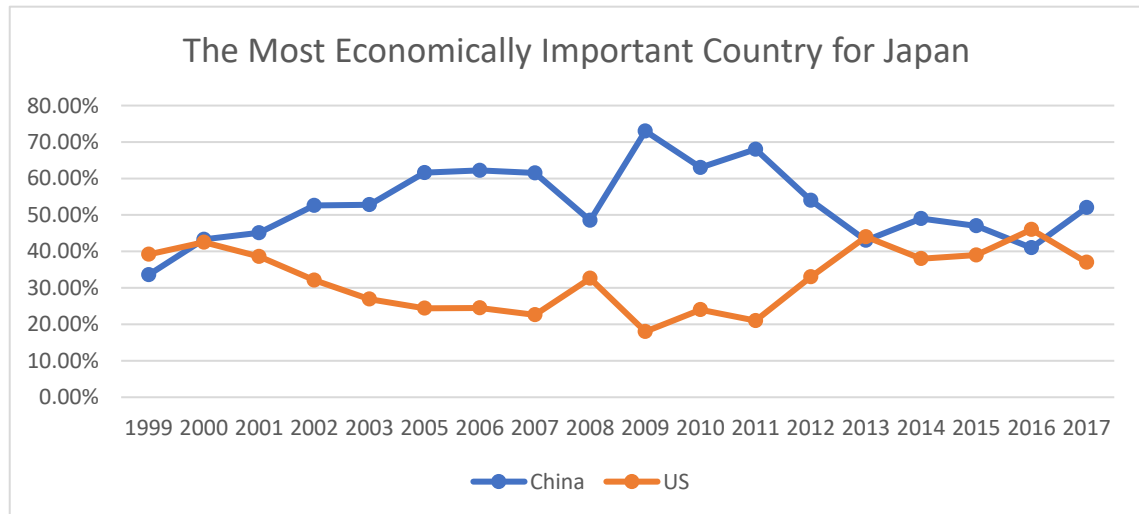
¹⁹ Rumi Aoyama, "Can a Xi charm offensive win over Japan?" *East Asia Forum*, August 21, 2020, <https://www.eastasiaforum.org/2020/08/21/can-a-xi-charm-offensive-win-over-japan/>.

²⁰ Rumi Aoyama, "Changing Japanese Perceptions and China-Japan Relations", Gerald Curtis, Ryosei Kokubun, and Wang Jisi eds., *Getting the Triangle Straight: Managing China-Japan-US Relations*, Tokyo: Japan Center for International Exchange, 2000, pp.255-256.



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Figure 1²¹



In sum, Japan's current foreign policy is primarily driven by growing security concerns about China. The fear of abandonment has replaced the fear of entrapment, and Japan is actively promoting the U.S.-Japan Security Alliance. At the same time, Japan is leading the formation of multinational economic agreements to shape China's economic behavior. In addition, ideological conflict with China is becoming more apparent, and pro-Taiwan political and public sentiment is also increasing.

Key Issues

Growing Security Tensions in Asia

China has emerged as the biggest security risk for Japan in the eyes of politicians and the public. On the other hand, China has explicitly stated that Japan is a security threat since the 2010s. China has criticized Japan's "outward-looking" military posture, condemned Japan's "intervention" in the South China Sea and warned of Japan's strengthening of security relations with Taiwan.²² In addition, China is also vigilant about the strengthening of the U.S.-Japan Alliance and the possible formation of an Asian military alliance equivalent to NATO.

This growing distrust is due in large part to tensions between Japan and China over the Senkaku Islands in the East China Sea. On January 22, 2021, the Standing Committee of China's

²¹ Data Sources: Annual polls conducted by Yomiuri Shinbun-Gallup

²² Rumi Aoyama, "FTA Strategy and China's Japan Policy: Explaining 'Hot Economics Cold Politics' in Sino-Japan Relations", forthcoming.



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National People's Congress passed the *China Coast Guard Law*,²³ which for the first time allows its Coast Guard to use weapons against foreign vessels and destroy other countries' economic structures in the disputed areas. This new law will inevitably increase tensions further regarding the Senkaku Islands situation. Japan and China do not have a well-developed crisis mechanism for managing maritime contingencies. Although the two countries have agreed to establish an Air-Sea Contact Mechanism, it has not yet become operational. Furthermore, a hotline between their defense agencies has not been established. In this environment, the prospects for Japan and China resuming negotiations on a 2008 joint statement between Prime Minister Yasuo Fukuda and President Hu Jintao on the joint development of East China Sea resources remains slim.²⁴

China's rapid military modernization and its assertive behavior at sea have also propelled many Asian countries, including Japan, to beef up their military capabilities. Military expenditure has increased in most Asian nations in recent years. In 2019, India was the third largest military spender in the world, right behind China, which ranked second.²⁵ Military spending in Southeast Asia reached \$40.5 billion in 2019, an increase of 4.2 percent over the previous year.²⁶

With an eye on China, most Asian nations welcome Japan's expanding role in Asia, and will choose the U.S. camp if forced to do so.²⁷ The foreign policies of Southeast Asian countries tend to be pragmatic and seek to avoid taking sides in the intensifying U.S.-China competition for influence. The *Association of Southeast Asian Nations (ASEAN) Outlook on the Indo-Pacific (AOIP)* released in 2019 is an indicator of Southeast Asian nations' response to the rising great power rivalry. By emphasizing the principles of openness, inclusiveness, and ASEAN centrality, the AOIP reflects the strategic preference of the countries in the region: to maintain a balance of power rather than choose sides. But this could prove complicated if tensions in the regional security environment increase.

Economic Interdependence and Competition for Regional Leadership

Due to rising labor costs and higher tariffs caused by trade friction between the United States and China, the importance of China as a production center is declining, but China's massive market of 1.4 billion people is still attractive to Japan. According to JETRO's survey on the activities of Japanese companies operating overseas in 2020, although the proportion of

²³ For full text of China's Coast Guard Law, please refer to http://www.moj.gov.cn/Department/content/2021-01/25/592_3265256.html.

²⁴ For details of the 2008 joint statement between Prime Minister Fukuda and President Hu, please refer to <https://www.mofa.go.jp/files/000091726.pdf>

²⁵ "Global military expenditure sees largest annual increase in a decade—says SIPRI—reaching \$1917 billion in 2019," *Stockholm International Peace Research Institute*, April 27, 2020, <https://www.sipri.org/media/press-release/2020/global-military-expenditure-sees-largest-annual-increase-decade-says-sipri-reaching-1917-billion>.

²⁶ Ibid.

²⁷ *State of Southeast Asia: 2020 Survey Report*, ISEAS Yusof Ishak Institute, January 16, 2020, <https://www.iseas.edu.sg/home-page-highlights/state-of-southeast-asia-2020-survey-report/>.



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companies that will expand their business in China dropped by 6.6 percent from the previous year (36.6 percent in 2020), 92 percent of companies responded that they would either expand or maintain the status quo. Only 6.7 percent and 1 percent, respectively, answered that they would downsize or withdraw from China.²⁸

In addition, Chinese tourism to Japan has contributed to boosting the Japanese economy. In 2019, as many as 9.5 million Chinese tourists visited Japan, up 14.5 percent from 2018.²⁹ If not for the Covid-19 outbreak, more than 10 million Chinese were expected to travel to Japan during the Tokyo Olympics. Chinese visitors to Japan account for 30-40 percent of the total consumption of tourists in Japan.³⁰

However, Japanese vigilance against China and the high-tech war between the United States and China is undoubtedly casting a shadow over bilateral business. Under former Prime Minister Shinzo Abe's leadership, the Ministry of Economy, Trade, and Industry (METI) introduced measures to support Japanese companies in shifting manufacturing out of China to Southeast Asia or Japan. Among the 87 companies that received government subsidies in June 2020, most manufacture strategic assets such as aviation parts and medical equipment.³¹

In December 2018, the Japanese government decided to phase out Huawei and ZTE products in the procurement of information and communication equipment by government agencies. The Japanese government has also shown a positive attitude towards participating with the members of the so-called “Five Eyes” intelligence sharing network (United States, Canada, United Kingdom, Australia, and New Zealand) in the Multilateral Telecommunications Security Fund initiated by the Biden administration for investing in “Western-based alternatives to Chinese equipment providers Huawei and ZTE.”³²

While adopting policies consistent with those of the United States in areas such as emerging technology, the Japanese government is also cautiously maintaining a functional economic relationship with China. Japan was reported to have refused to join the Clean Network Program, a Trump administration initiative announced in 2020 to protect sensitive information

²⁸ “Results of JETRO’s 2020 Survey on the International Operations of Japanese Firms”, <https://www.jetro.go.jp/en/news/releases/2021/601d3a6485e0a414.html>.

²⁹ “Number of Foreign Visitors to Japan (訪日外客数),” Japan National Tourism Organization, January 17, 2020, https://www.jnto.go.jp/jpn/statistics/data_info_listing/pdf/200117_monthly.pdf.

³⁰ “A report on the trend in economic consumption of foreigner visitors to Japan (訪日外国人消費動向調査),” Japanese Tourism Agency, Ministry of Land, Infrastructure, Transport, and Tourism, July 17, 2020, <https://www.mlit.go.jp/kankocho/siryou/toukei/content/001354358.pdf>.

³¹ For the list of the companies which received the government subsidies in July 2020, please refer to <https://www.jetro.go.jp/services/supplychain/kekka-1.html>

³² “National Security Senators Introduce Bipartisan Legislation to Develop 5G Alternatives to Huawei,” Office of U.S. Senator Mark Warner, January 14, 2020, <https://www.warner.senate.gov/public/index.cfm/2020/1/national-security-senators-introduce-bipartisan-legislation-to-develop-5g-alternatives-to-huawei>.



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from malign actors, not only because the Japanese business community was generally cautious about excluding China, but also because such a step would violate World Trade Organization (WTO) rules.³³

Norms, rules, and global standards are the substantive concepts underlining Japan's economic policy towards China. The CPTPP, Japan-EU EPA and RCEP were reached with the aim of formulating high-standard global trade rules and ultimately shaping China's economic behavior. (China is a member of RCEP but not CPTPP.) Japan is also taking the lead in advancing rulemaking for next generation 5G communication. At the 2019 G20 Summit hosted by Japan, Prime Minister Abe emphasized the importance of the "Osaka Track" and the principle of "Data Free Flow with Trust (DFFT)."³⁴ In 2020, the Ministry of Internal Affairs and Communications (MIC) announced that it would establish a new organization, the "Beyond 5G New Business Strategy Center," to enable Japan to take the lead in setting international rules.³⁵ In sum, decoupling strategic goods, diversifying the supply chain based on WTO rules, taking a leadership role in setting global standards and promoting trade with China are four important elements of Japan's economic strategy. The government's subtle handling of China policy has gained public support in Japan. According to a Nikkei survey, around 60 percent of Japanese businesspeople support the government's plan to bring production back to Japan from China, and 40 percent of businesspeople are of the opinion that Japan should be discouraged from working with China on high technology that can be used for military purposes.³⁶

Japan's economic strategy may have a positive impact on China. On November 19, 2020, a spokesperson for the Ministry of Commerce of China stated that China holds an open and positive attitude towards CPTPP. The next day, President Xi publicly stated at an informal APEC meeting that China would consider joining the CPTPP.³⁷ In fact, that was not the first time China expressed interest in CPTPP. In recent years, some Chinese government officials even declared that the high-quality rules set by the CPTPP represent the standards for future multinational trade agreements. In this sense, rather than a trade agreement to encircle China, CPTPP could play a crucial role in promoting further reform and market liberalization in China.

³³ "U.S. Plan to Exclude China will not be Joined (米の中国排除策 参加見送り)", *Yomiuri Shimbun*, October 16, 2020.

³⁴ "Speech by Prime Minister Abe at the World Economic Forum Annual Meeting", https://www.mofa.go.jp/ecm/ec/page4e_000973.html

³⁵ "Establishment of Beyond 5G Promotion Consortium, and Holding of General Meeting, and Establishment of Beyond 5G New Management Strategy Center", https://www.soumu.go.jp/main_sosiki/joho_tsusin/eng/pressrelease/2020/12/11_02.html

³⁶ "60% Support Return of Production from Overseas, Survey of 3,000 People from Listed Companies (海外から生産回帰、6割支持、上場企業 3000 人調査)", *Nikkei*, September 3, 2020.

³⁷ "China Positive to Joining CPTPP: Xi", http://www.xinhuanet.com/english/2020-11/20/c_139530869.htm



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Furthermore, competition between Japan and China in establishing regional norms could facilitate economic integration in Asia. It was the conclusion of the CPTPP in 2018 that spurred China and other members of RCEP to conclude that negotiation in 2020. With an eye on the CPTPP agreement and the ongoing Free Trade Agreement (FTA) negotiations between Japan, China and South Korea, leaders in Southeast Asia started to worry that without a comprehensive multilateral trade agreement centered on ASEAN, the centrality of ASEAN would be lost.³⁸ With this backdrop, the Indonesian government took the initiative to accelerate the RCEP negotiations. RCEP is based on the principles of openness and inclusiveness that ASEAN values, so it is not surprising that the RCEP even envisages the participation of the United States and Russia.

Public Sentiment and National Image

There is an asymmetric structure between China and Japan when it comes to public sentiment and national image. According to a poll released by Genron NPO in November 2020, 89.7 percent of Japanese people hold a negative impression of China, while 45.2 percent of Chinese people have a positive impression of Japan (Figure 2 below). This pronounced asymmetry can also be witnessed in the cross-border movement of people between the two countries. Take the number of international students as an example: as of May 1, 2019, there were around 125,000 Chinese studying in Japan, accounting for almost 40 percent of all international students in Japan. In comparison, only 7,980 Japanese studied in China in 2018.³⁹ Partly because China's public diplomacy targeted the United States and the United Kingdom more than Japan in the past,⁴⁰ there are only 15 Confucius institutions established in Japan to encourage the study of Chinese history and culture.

³⁸ Marty Natalegawa, "ASEAN, Play a Central Role in Trade (ASEAN 貿易で中心的な役割を)", *Nikkei*, December 5, 2020.

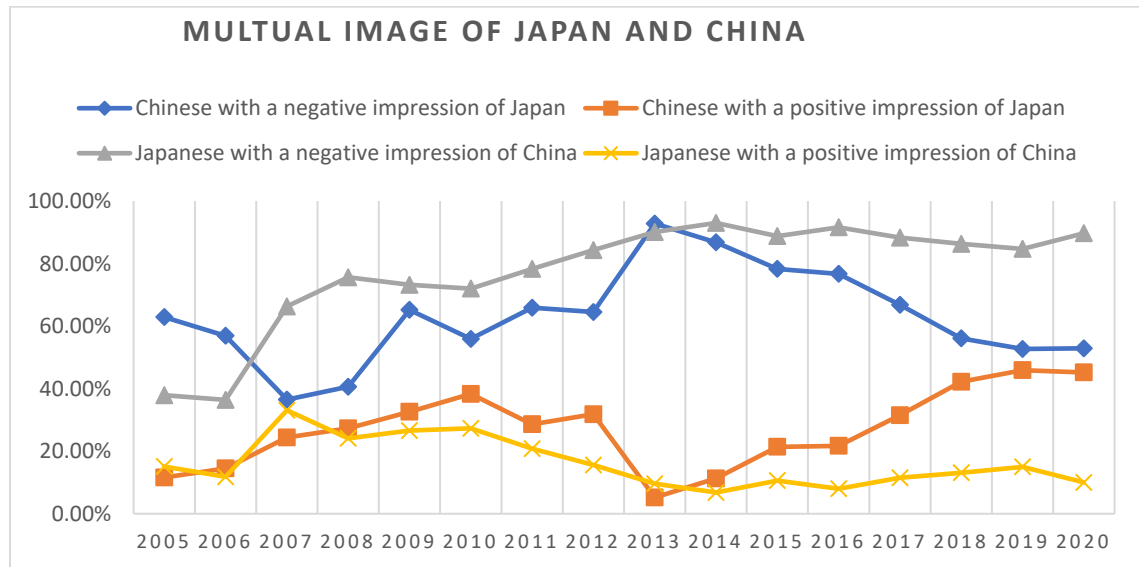
³⁹ "A report on the situation of enrolled foreign exchange students in Japan and the number of Japanese foreign exchange students abroad (「外国人留学生在籍状況調査」及び「日本人の海外留学者数」等について)," [Ministry of Education, Culture, Sports, Science and Technology, April 22, 2020, https://www.mext.go.jp/content/20200421-mxt_gakushi02-100001342_1.pdf](https://www.mext.go.jp/content/20200421-mxt_gakushi02-100001342_1.pdf).

⁴⁰ Rumi Aoyama, "China's Public Diplomacy towards Southeast Asian Nations", [20190101-01-en.pdf \(u-tokyo.ac.jp\)](https://www.tokyo.ac.jp/20190101-01-en.pdf)



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Figure 2⁴¹



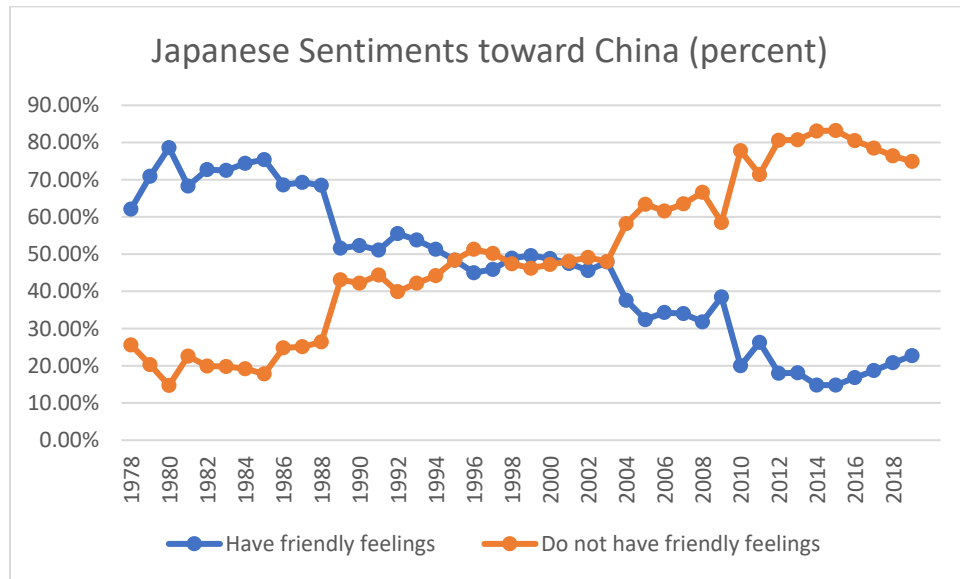
As shown in Figure 3 below, since the end of the Cold War, the image of China in Japan has continued to deteriorate, and several events have played a decisive role. The Tiananmen Square incident in 1989 instilled in the Japanese public an image of China as an undemocratic regime. In Japan, as the only nation in the world to be bombed with atomic weapons, the repercussions of China's two nuclear weapon tests in 1994 were particularly strong. Especially after the early 2000s, the postwar generation was repulsed by China's diplomatic pressure on Japan over historical issues, and the maritime disputes of the past decade have further worsened China's image in Japan.

⁴¹ Data Sources: Annual polls conducted by Genron NPO, https://www.genron-npo.net/en/201117_en.pdf.



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Figure 3⁴²



In contrast, since the latter half of the 2000s, Japan's image in China has been on an upward trend. The Hu Jintao administration made efforts to improve Japan's image in China. Before Premier Wen Jiabao's visit to Japan in April 2006, China Central Television (CCTV) began broadcasting a documentary called "Yansong Goes to Japan (Yansong Kan Zhongguo)". This documentary series was designed to "promote positive interaction and media exchanges between the two countries" by conducting special interviews with authoritative figures in the fields of Japanese politics, economics, and culture.⁴³ It covers a wide range of content, including Japanese Kabuki, hot springs, etc. "Yansong Goes to Japan" is a big hit in China and has changed the narrow view of the Chinese people towards Japan, which was limited to historical issues. Many Chinese people have traveled to Japan in recent years, which has reinforced a diverse and positive image of Japan that has not changed significantly since Xi Jinping took office. Japan's image in China reached its highest level in the Genron NPO survey of 2019 (Figure 2 above).

⁴² Data Sources: Annual Polls on Diplomatic Issues conducted by Cabinet Office

⁴³ "Introduction of Yansong Goes to Japan", <http://news.cctv.com/special/C17563/20070123/101631.shtml>



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Policy Recommendations

What can Japan and the United States do to confront the security concerns posed by China's military rise while continuing to promote economic cooperation and people-to-people exchange as a means of stabilizing the bilateral relationship?

With respect to security, it is vital for Japan and other like-minded nations to strengthen their joint efforts to counter China's growing military might. Simultaneously, to alleviate security tensions in East Asia, Japan and the United States should continue to explore opportunities for confidence-building with China despite limited progress to date. In particular, the establishment of a crisis mechanism for managing maritime contingencies should be a top priority.

Japanese industry remains closely connected to the Chinese market, but economic security is becoming an important element of Japan's economic strategy toward China. Economic decoupling should be limited to areas such as strategic assets and should be in line with WTO rules so that Japan can continue to promote norms for economic integration in multilateral institutions. In addition, Japan and other Western democracies need to proactively take leadership roles in formulating high-standard rules for the digital economy to adapt to changes brought about by the emergence of new communication technologies.

In terms of people-to-people and cultural relations with China, Japan has a significant advantage in terms of soft power and should continue to promote grass-roots exchanges in such areas.

Conclusion

Over the past 70 years since the end of World War II, the relationship between Japan and China has undergone significant changes, and bilateral relations are now complex and robust. Despite mutual distrust and competition in politics and security, economic, cultural, and people-to-people exchanges have flourished.

Japan's post-war foreign policy started with the Yoshida Doctrine, the essential elements of which still strongly influence the trajectory of Japan's current course. Nevertheless, Japan's foreign policy strategy is entirely different from that of the Cold War period. At present, mounting security concerns about China have become the most important factor motivating Japan's foreign policy strategy, especially its policy toward China. Japan is no longer too worried about being "entrapped in a war of the United States"; rather, anxieties over whether the United States will commit to Japan's defense have grown sharply. Driven by this fear of abandonment, Japan has enthusiastically promoted the U.S.-Japan Security Alliance and has



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made every effort to advance military cooperation with like-minded countries. Consequently, Japan's role in the tripartite relationship between Japan, the United States, and China is no longer as an intermediary but as an important player in leading the U.S.-Japan Alliance.

In addition, Japan is playing a leading role in the formulation of high-standard rules for the international economic order and trying to shape Chinese behavior accordingly. On the other hand, Japan is also promoting economic relations with China, striving to maintain a delicate balance between political and economic interaction and strategic competition.

Japan's conengagement policy, a dual strategy combining elements of interaction and competition, has proven to be relatively successful thus far. Economic relations and societal contacts with China have developed despite deepening distrust between the two countries. In addition, Japan's economic strategy centered on promoting multilateral trade agreements has enhanced its normative influence and could have a positive effect on shaping China's behavior and promoting economic integration in Asia.

Despite these successes, Japan's China strategy has its limitations. As geopolitical competition with China intensifies, economic ties that have served as a ballast amid political tensions may be eventually undermined. A process of targeted decoupling is underway, though moving at a languid pace. As Japan's diplomacy is increasingly tied to human rights and democratic beliefs, the ideological battle with China also looms ahead. The delicate balance between interaction and competition will become increasingly complex, placing a premium on close coordination with the United States and other countries to manage strategic competition in the world's most dynamic region.