



The Future of Japan-China Relations

Japan's Economic Pragmatism: Cooperating and Competing with China

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Introduction: The Japanese Dilemma in a New Era

The Japan–China relationship is likely to be particularly complex and delicate in the 2020s. For decades, China has proven to be both an indispensable economic opportunity and a tangible security threat to Japan. In this setting, during his second period as prime minister from 2013 to 2020, Shinzo Abe adopted a posture that showed a dual nature of hedging and engagement toward China. Matthew Goodman summarizes this approach as “engaging where possible, hedging where necessary, and trying to uphold the international rules-based order.”² Indeed, during this period the Japanese government and Japanese enterprises struck a careful balance, hedging against economic dependence on China with the “China Plus One” strategy designed to diversify Japan’s manufacturing and investment base; establishing a National Security Council (NSC) to coordinate security policy; and leading multilateral frameworks such as the Trans-Pacific Partnership (TPP) to shape rules and norms for regional economic integration. Japan furthered engagement with China by regularly holding high-level official meetings focused on non-sensitive cooperation fields and conditional cooperation in third-country markets, as well as the Regional Comprehensive Economic Partnership (RCEP), in which China is a member. This combination of hedging and engagement was a natural and logical outgrowth of the realities Japan faced with a rising China.

However, the conditions that allowed the Japanese government to adopt this dual strategy are changing rapidly. First, the intensification of strategic competition between the United States and China that began in 2018 is expected to continue during the Biden administration, and this tension will force the Japanese government to make difficult decisions, such as the extent to which Japan should decouple from the Chinese economy. It is now clear that for the United States, the confrontation between the two major powers extends far beyond the trade deficit question, which was the initial point of focus. In addition, the Covid-19 pandemic created unprecedented shocks. As geopolitical tension between China and surrounding regions increased, unfavorable opinions about China began to grow in the United States, Australia, and India.³ Japan postponed the official visit of Xi Jinping to Japan, originally scheduled for spring 2020,

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² Goodman, Matthew. 2020. “Strategic Ambivalence: Japan’s Conflicted Response”, the Korea Economic Institute (KEI), June 24, 2020. <https://keia.org/publication/strategic-ambivalence-japans-conflicted-response-2/>.

³ For American case, see Kim, Patricia. 2021. “U.S. Perceptions of China in the Pandemic Era and Implications for U.S. Policy”, Alliance Policy Coordination Brief, Carnegie Endowment for International Peace and the Japan Forum on International Relations, Inc. <https://carnegieendowment.org/2021/01/21/u.s.-perceptions-of-china-in-pandemic-era-and-implications-for-u.s.-policy-pub-83684>



The Future of Japan-China Relations

mainly because of the pandemic.⁴ Meanwhile, the Chinese economy outperformed other major economies in nominal Gross Domestic Product (GDP) growth, at an annual 2.3 percent rate in 2020.⁵ On the one hand, China's disputes with the United States and countries around it have deepened, while on the other, the relative importance and gravitational effects of the Chinese economy are becoming stronger than ever.

In this historic moment, Japan must deal with the novel conditions of the 2020s, which are substantially different from those of the mid-2010s. This poses a particular challenge to Japan due to its deep economic interdependence with China; at the same time, Japan's national security rests on the solid foundation of the U.S.–Japan Alliance. The Japanese government and the ruling Liberal Democratic Party (LDP) are now attempting to develop a unified economic security promotion act to address the risks posed by China's advances in emerging technologies.⁶ While this is driving Japan in a more security-dominant direction, constant dialogue with China is expected to continue. The Japanese approach will be effective if consensus can be built among domestic and international actors on the right balance between hedging and conditional engagement with China.

This paper begins by summarizing the history of Japan–China economic relations from the 1950s to the present, with a focus on the opportunities provided and risks posed by China. The next section investigates the following three questions related to Japan's approach. First, why did Japan adopt a dual approach? Second, how deeply is Japan hedging and engaging with China? Third, which trajectory will Japanese strategy towards China take in the post-Abe period? The paper concludes with an examination of the novel challenges Japan faces in furthering its China strategy and how Japan and the United States can align their respective approaches.

⁴ *The Japan Times*, “China's Xi Jinping postpones state visit to Japan due to coronavirus”, March 5, 2020. <https://www.japantimes.co.jp/news/2020/03/05/national/chinas-xi-jinping-postpones-japan-visit-covid-19/>.

⁵ *Reuters*, “China's Q4 GDP growth beats f'cast, ends 2020 in solid position after COVID-19 shock”, January 17, 2021. <https://www.reuters.com/article/china-economy-gdp/wrapup-chinas-q4-gdp-growth-beats-fcast-ends-2020-in-solid-position-after-covid-19-shock-idUSL1N2JT039>.

⁶ Strategic Headquarters on the Creation of a New International Order of Policy Research Council, Liberal Democratic Party of Japan. 2020. “Recommendation: Toward Developing Japan's “Economic Security Strategy”, December 16, 2020. Japanese version: https://jimin.jp-east-2.storage.api.nifcloud.com/pdf/news/policy/201021_1.pdf. English version: https://jimin.jp-east-2.storage.api.nifcloud.com/pdf/news/policy/201021_5.pdf.



The Future of Japan-China Relations

Historical Background

Coupling or Uncoupling Economies and Politics

In considering the current U.S.–China confrontation, referred to as a new Cold War in some media,⁷ a review of the history of the Japan–China economic relationship during the Cold War may be helpful, although China’s current position in global economy is substantially different.

After the signing of the Peace Treaty between the Republic of China (Taiwan) and Japan in 1952, formal diplomatic relations between Japan and the People’s Republic of China (PRC) were disconnected. As the Japanese government adopted an approach separating politics from the economy (*Seikei Bunri*) to develop trade ties with the PRC, the PRC adopted the opposite approach, coupling politics and the economy (*Seikei Hukabun*) to limit engagement with Japan.⁸ Due to this disagreement, the economic relationship between Japan and mainland China was limited until the 1960s, resting on agreements such as the LT (Liao-Takazaki) trade scheme, which represented a pragmatic approach to trade in non-sensitive sectors of both economies.⁹

Japanese trade pragmatism towards China appeared much earlier. In October 1949, when the PRC was established, Mr. Karoku Hosokawa, a member of the Japanese Communist Party, wrote an article criticizing the attitude of Prime Minister Shigeru Yoshida towards China.

*Prime Minister Shigeru Yoshida told a newspaper reporter that “it doesn't matter whether China is red or blue, Japan must maintain trade relations with China” in response to the current situation in which the Chinese Communist Party and its army are certain to become the leading forces in the Chinese revolution. What on earth does he think of this new situation?*¹⁰

While Mr. Hosokawa criticized Mr. Yoshida from a Marxist perspective, Mr. Hosokawa also emphasized the importance of Japan-China trade as China is historically a major trading partner for Japan as shown in Figure 1. China accounted for 17.6 percent of total Japanese trade from 1901 to 1939 on average, though this dropped to 1.4 percent from 1951 to 1960 due to the political divide caused by the Cold War.

⁷ Rachman, Gideon. 2020. “A new cold war: Trump, Xi and the escalating US-China confrontation”, *The Financial Times*, October 4, 2020. <https://www.ft.com/content/7b809c6a-f733-46f5-a312-9152aed28172>.

⁸ Tanaka, Akihiko. 1991. *Japan-China Relations: 1945-1990*, The University of Tokyo Press, Chapter 2 (Japanese).

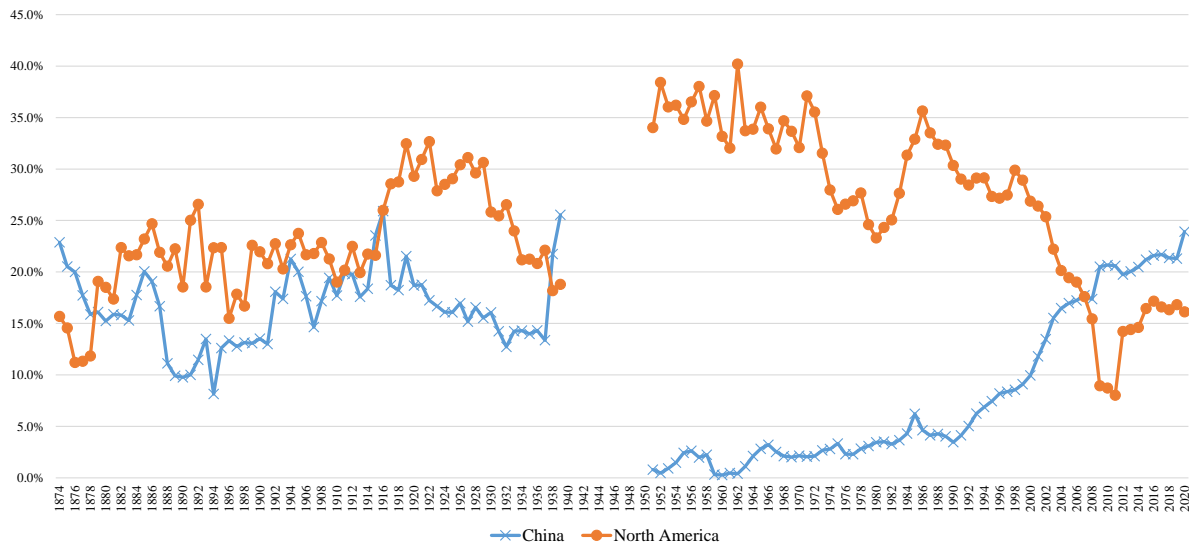
⁹ Hoadley, J. Stephen and Sukehiro Hasegawa. 1971. “Sino-Japanese Relations 1950-1970: An Application of the Linkage Model of International Politics”, *International Studies Quarterly*, Vol. 15, No. 2, pp.147-148.

¹⁰ Hosokawa, Karoku. 1949. “The Chinese Revolution and the “China White Paper””, *Chuokoron*, October 1949, pp.24-31 (Japanese). I have learnt this episode based on discussions in following article. Inoue, Toshikazu. 2014. “What was “Asia” for Postwar Japanese Society? Focusing on the 1950s”, in Taizo Miyagi ed. *The Formation of Postwar Asia and Japan*, Chuokoronshinsha (Japanese).



The Future of Japan-China Relations

Figure 1. Share of North America and China in Japanese Trade (1874-2020)¹¹



Note: Each line indicates the share of trade volume (sum of import and export) in total Japanese trade in current Japanese Yen. The data for 2020 is preliminary. For statistical convenience for a long-term period, the author adopted North America as a proxy of the United States. While North America contains Canada, Mexico and other economies, the United States accounted for approximately 80 percent of trade volume in the region.

The full scale of the contemporary Japanese economic and diplomatic orientation toward mainland China was put into place after the normalization of diplomatic relations with the PRC in 1972, at which point formal diplomatic relations with Taiwan were disconnected. The negotiation was led by Prime Minister Kakuei Tanaka and Foreign Minister Masayoshi Ohira of the Liberal Democratic Party (LDP), despite an intra-party split on the issue.¹² In 1978, after Deng Xiaoping, a Chinese pragmatic leader, returned to political power in Beijing, he visited Japan and Singapore to explore modernization strategies. Following careful study of Europe, the United States, and some of its Asian neighbors,¹³ China's gradual reformation from a centrally planned economy to a market economy began with the relaxation of state control over economic activities and the establishment of Special Economic Zones. This strategy, based on the idea of comparative advantage, was given the name of Reform and Opening, and it accelerated after

¹¹ Source: Data for 1874-1970 is taken from Yamazawa, Ippei, and Yuzo Yamamoto. 1974. *Estimates of Long-Term Economic Statistics of Japan Since 1868: Volume 14 Foreign Trade and Balance of Payments*, Toyo Keizai Shinposha (Japanese); data for 1971-2020 is from The Ministry of Finance, Japan, *Monthly Trade Statistics Report* (each year).

¹² Inoue, Masaya. 2018. "The Japan-China Treaty of Peace and Friendship as History", *Asia-Pacific Review*, 25(1), pp.75-89.

¹³ Vogel, Ezra F. 2011. *Deng Xiaoping and the transformation of China*, Cambridge, MA: Belknap Press of Harvard University Press, see Chapter 7 and 10.



The Future of Japan-China Relations

1992.¹⁴ Due to the gap in economic development between Japan and China, the Japanese government began to provide official development assistance (ODA) to China in 1979.¹⁵

A speech by Prime Minister Masayoshi Ohira in 1979 in Beijing captures the spirit of Japanese engagement with China:¹⁶

The reason why the countries of the world have accepted your modernization policy as a blessing is that it is based on the principles of international cooperation and the hope that the emergence of a more prosperous China will lead to a better world. The reason why Japan has made a strong commitment to cooperate with the modernization of China is not only because of our own way of thinking but also because it is backed by the expectations of the world.

During the 1980s and 1990s, the Japan–China economic relationship was clearly characterized by the fact that Japan was a more advanced economy. This difference was defined by relative GDP size as well as the gap in corporate and technological capabilities. China was a smaller economy and was far from an economic superpower, both quantitatively and qualitatively. Japanese companies, including small and medium-sized enterprises, increased their investment in China in the 1990s, particularly in labor-intensive manufacturing industries, which later expanded to encompass machinery, electronics, and other industries following China’s accession to the World Trade Organization (WTO) in 2001.¹⁷ China’s share in Japanese trade has rapidly increased from 5 percent in 1992 to 11.8 percent in 2001 (see Figure 1).

“Cold Politics, Hot Economy”

For Japanese companies, Chinese risk is not a new issue. Economic engagement with China has faced several challenges beginning in the 2000s if not earlier. During the Junichiro Koizumi administration (2001-2006), bilateral political tensions were high due to historical issues. This period was dubbed “cold politics, hot economy (*Seirei Keinetsu*).”¹⁸ During this time, bilateral trade and Japanese investment in China continued despite rising tensions, as China’s share in Japanese trade kept increasing, reaching 20.7 percent in 2010 (see Figure 1). This separation of economy and politics was the outcome of a pragmatic attitude in both nations.

¹⁴ Fang, Cai, Ross Garnaut, Ligang Song. 2018. “40 years of China’s reform and development: How reform captured China’s demographic dividend” in Ross Garnaut, Ligang Song, Fang Cai ed. *China’s 40 Years of Reform and Development: 1978-2018*, Australian National University Press.

¹⁵ Ministry of Foreign Affairs of Japan, “Overview of Official Development Assistance (ODA) to China”, Ministry of Foreign Affairs of Japan, February 1, 2016. https://www.mofa.go.jp/policy/oda/region/e_asia/china/index.html.

¹⁶ Masayoshi Ohira’s speech entitled “Sino-Japan Relations Heading to a New Century: Seeking Depth and Breadth”, December 7, 1979, at Beijing Political Consultative Hall.

¹⁷ Alvstam, Claes G., Patrik Ström and Naoyuki Yoshino. 2009. “On the Economic Interdependence between China and Japan: Challenges and Possibilities”, *Asia Pacific Viewpoint*, Vol.50, No. 2, pp.198-214.

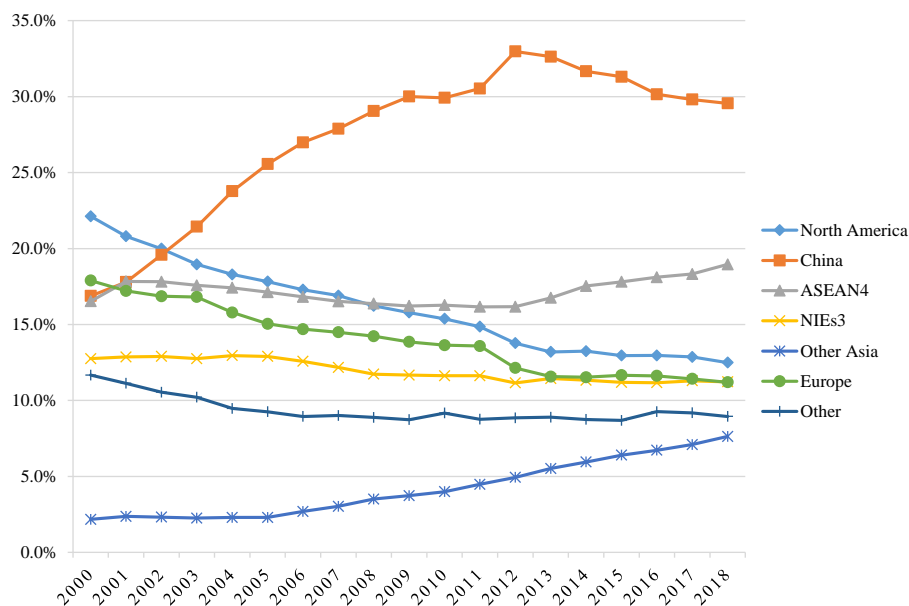
¹⁸ Masaya Inoue. 2016. “The Impact of LDP Politics on Japan-China Relations”, The Tokyo Foundation for Policy Research, January 12, 2016. <https://www.tkfd.or.jp/en/research/detail.php?id=275>.



The Future of Japan-China Relations

Throughout the 2000s, China’s coastal regions became transformed into what was called the “workshop of the world” as they received large amounts of foreign direct investment,¹⁹ and China gradually became a hub of the East Asian production network.²⁰ According to the Ministry of Economy, Trade, and Industry (METI) of Japan, by 2012, Japanese affiliates in China reached 7,700 in number and accounted for 33 percent of the total number of Japanese overseas affiliates, increasing from just 16.9 percent in 2000 (Figure 2).²¹

Figure 2. Distribution of the Japanese overseas affiliates by region (%)²²



Note: ASEAN 4 are Philippines, Malaysia, Thailand, and Indonesia; NIEs are Taiwan, South Korea, and Singapore; China contains both mainland China and Hong Kong.

The Japan–China economic relationship entered a new phase from 2008–2012 due to the global financial crisis of 2008, China surpassing Japan in terms of GDP in 2010, and the

¹⁹ Kwan, Chi Hung. 2009. “Transforming the World’s Workshop: Center of industry shifts from light to heavy industry”, Research Institute of Economy, Trade and Industry, July 31, 2009. <https://www.rieti.go.jp/en/china/09073102.html>.

²⁰ Regarding the degree of China’s participation into a global supply network, please see figure 1.15 (page 27-28) in Li, Xin, Bo Meng, and Zhi Wang. 2019. “Recent patterns of global production and GVC participation” in World Bank ed., *Global Value Chain Development Report: Technological Innovation, Supply Chain Trade and Workers in a Globalized World*, Washington: World Bank Group.

²¹ Ministry of Economy, Trade, and Industry (METI), “Summary of the 40th Basic Survey on Overseas Business Activities (July 2010 Survey)”, April 21, 2011. <https://www.e-stat.go.jp/stat-search/file-download?statInfId=000022043392&fileKind=2>.

²² Source: METI, Basic Survey on Overseas Business Activities, each year. <https://www.meti.go.jp/statistics/tyo/kaigaizi/index.html>.



The Future of Japan-China Relations

challenges resulting from Chinese coercion around the Senkaku Islands between 2009 to 2012.²³ First, China's V-shaped recovery following the 2008 crisis and the age of double-digit growth resulted in a fundamental shift in the economic balance of power between the two countries. During this time, China was transforming itself into an economic superpower. At the same time, the increased importance of the Chinese state and retreat of the private sector was taking place, exemplified by China's massive post-crisis stimulus package. China's Marshall Plan to rescue the global economy was also an idea floated at the time.²⁴

Both the economic and political relationship between Japan and China became strained, and this period in the relationship has been called the worst point since diplomatic normalization.²⁵ Maritime tensions began to rise in 2010 after a Chinese fishing boat crashed into a Japanese Coast Guard ship. After the Japanese government purchased land on the Senkaku Islands from private owners on September 11, 2012, on the pretext of protesting the transfer, there were massive demonstrations in over 100 cities in China that targeted Japanese-owned factories, supermarkets, and automobiles.²⁶ Several consequences directly followed the rise in maritime tensions, among which were physical damage to Japanese property in China and a sharp decline in revenues of Japanese companies with interests there; a downturn in public perceptions of China in Japan;²⁷ and a hiatus from dialogue between officials at the highest levels. Prior to tensions in 2012, the Japanese government and private companies had also become acutely aware of the risks of working with China, as the Chinese government had unofficially regulated the export of strategic materials such as rare earth elements since 2010.²⁸ Following these incidents, both political and economic actors in Japan came to understand that economic interdependence between Japan and China could be diplomatically weaponized in the context of a political confrontation. The Japanese business community was prompted to perform a serious review of the risks to doing business in China, which had increased since the period of "cold politics, hot economy." Even so, Japanese companies continued their operations in China, though other events during that timeframe, such as the Great East Japan Earthquake and floods in Thailand in 2011, made Japanese companies realize the critical importance of diversifying key elements and components in the supply chain.

²³ China began to challenge Japan's sovereignty over those islands, located in the East China Sea, during that period and has become increasingly assertive in the waters round the islands since then.

²⁴ *The Global Times*, "'Chinese Marshall Plan' a sound notion", September 22, 2009. <https://www.globaltimes.cn/content/427625.shtml>.

²⁵ *The Japan Times*, "Five years after nationalization of the Senkaku Island", September 11, 2017. <https://www.japantimes.co.jp/opinion/2017/09/11/editorials/five-years-nationalization-senkaku-islands/>.

²⁶ *Asahi Shimbun*, "Anti-Japanese Demonstrations in 100 Cities: Chinese Authorities' Suppressive Stance Unsuccessful", September 19, 2012. <http://www.asahi.com/special/senkaku/TKY201209180624.html>.

²⁷ See "Public Opinion Poll on Diplomacy" by The Cabinet Office, <https://survey.gov-online.go.jp/index-gai.html>, and "Japan-China Joint Public Poll" by the Genron NPO, <https://www.genron-npo.net/world/archives/9354.html>.

²⁸ Regarding the Japanese diversification efforts on rare earth elements, the Japanese dependency to import from China dropped from 90% in 2005-2010 to 60% in 2018. See Vekasi, Kristin. 2019. "Politics, markets, and rare commodities: Responses to Chinese rare earth policy", *Japanese Journal of Political Science*, 20(1), pp. 2-20.



The Future of Japan-China Relations

According to a study by Professor Kristin Vekasi, the Japanese business community adopted three main strategies to respond to China's risks: voice, exit, and loyalty.²⁹ The exit strategy consists of seeking alternative destinations for Japanese investment instead of China. As already shown in Figure 2 above, on the investment side, the China Plus One strategy, designed to diversify Japan's manufacturing base in the region, became widely accepted as Southeast Asian nations gradually opened their economies.³⁰ Although the absolute number of Japanese affiliates in China did not decrease rapidly, the relative share in the total Japanese affiliates declined from 33.0 percent in 2012 to 29.6 percent in 2018 (Figure 2). Beyond ASEAN4, including Thailand and Malaysia, Japanese companies saw Vietnam and Myanmar as alternative or supplemental bases for production especially in labor-intensive sectors. Although Japanese companies working in China recovered after 2014, the negative impact on investment decisionmaking and forecasts remains.³¹ The voice strategy attempts to mitigate risk by lobbying and corporate social responsibility (CSR) activities, whereas the loyalty strategy adopts a much quieter approach to maintaining businesses in China.³² It should be noted that conventional conceptions of China's risks for Japan have largely been limited to bilateral considerations, while the current geopolitical risk experienced today is broader.

A Dual Approach

The Japanese approach to China over the last decade can be characterized as carefully combining dimensions of engagement and hedging.

When Shinzo Abe returned for his second term as prime minister in December 2012, a key diplomatic agenda was the stabilization and improvement of Japan–China relations. Top-level meetings between Japan and China began again in 2014, and before his official visit to Beijing in 2018, Abe held 14 summit meetings with Chinese counterparts (including with both President Xi Jinping and Premier Li Keqiang). In this way, a warmer political climate was gradually created, although it was sometimes referred to as an improvement “from negative to zero,” indicating that the relationship may not have been fundamentally positive in any absolute sense of the term.³³

²⁹ Vekasi, Kristin. 2020. *Risk Management Strategies of Japanese Companies in China: Political Crisis and Multinational Firms*, Routledge.

³⁰ Iida, Keisuke. 2015. “Political Risks and Japanese Foreign Direct Investment in East Asia: A Case Study of “China-Plus-One””, *The Korean Journal of International Studies*, 13(2), pp.383-410.

³¹ Chen, Cheng, Tatsuro Senga, Chang Sun, and Hongyong Zhang. 2016. “Policy uncertainty and foreign direct investment: Evidence from the China-Japan island dispute”, Queen Marty University of London, School of Economics and Finance, Working Paper No.803.

³² For details of CSR activities by the Japanese companies, see chapter 5 of Vekasi (2020). Some of Japanese affiliates in China publishes CSR report. Nidec Corporation. 2019. “CSR Resport in 2019”, Nidec (Chinese). https://www.nidec.com/cn/sustainability/news/2019/news1206-02/-/media/www-nidec-com/sustainability/report/report2019_cn.pdf.

³³ Hu, Lingyuan et al. 2019. “Sino-Japanese Relations: 2018”, *Journal of Japanese Studies (Ribben Yanjiu Jilin)*, Vol. 2019, No. 1, pp.1-43 (Chinese). Also see Kawashima, Shin. 2020. “The Post-Abe Administration's Policy Toward



The Future of Japan-China Relations

Despite the absence of a solution to the maritime tensions, political tensions between Tokyo and Beijing were gradually relaxed. As this process continued, the Japanese business community kept the need for mutual exchange and top-level meetings at the forefront of the political agenda.³⁴ During this period, the idea of cooperation under China's key economic initiatives—the Asian Infrastructure Investment Bank (AIIB) and the Belt and Road Initiative (BRI)—were common subjects of conversation, and discussions on the AIIB issue were held from January to April 2015.³⁵ In March 2015, the Japanese government decided not to join the AIIB as a founding member mainly due to concerns about its governance structure, among other issues. At this time, five years after China surpassed Japan in terms of nominal GDP, the ODA Japan was offering to China became an issue, as Japanese citizens began to increasingly question the necessity of economic assistance to China.

Another important moment came in 2017, when the Japanese government adjusted its China policy. Toshihiro Nikai, the Secretary-General of the LDP, visited Beijing to participate in the BRI International High-Level Forum (May 14–15, 2017), sending a new signal of potential cooperation. After this, on June 5, 2017, Prime Minister Abe gave remarks at Nikkei's Future of Asia forum, mentioning the BRI in a positive light.³⁶ This came as a surprise for the Chinese participants at the conference. Fudan University's annual report on Japan–China relations described this as follows: “Unexpectedly, Sino-Japanese relations in 2017 reached a turning point in the strategic confrontation.”³⁷ Even though the Japanese government did not join the AIIB and did not cooperate directly with the BRI, a period of conditional cooperation with China had begun.³⁸

Abe's statement at a press conference after the Asia Pacific Economic Cooperation (APEC) meeting in 2017 describes the conditional cooperation approach to China as follows:

As for the BRI, we look forward to this initiative making contributions in a forward-looking way to the peace and prosperity of the region and the world by adequately incorporating the thinking held in common by the international community regarding

China: What's Next after Normalizing Relations?”, Nippon.com, September 10, 2020 (Japanese).
<https://www.nippon.com/ja/in-depth/d00626/>.

³⁴ Japan-China Economic Association. 2014. “Wishing for a Return to Mutual Trust between Japan and China: With Expectations for Market Function-oriented Reforms”, Recommendation of the 11th Meeting of the 21st Century Japan-China Relations Outlook Committee.

³⁵ Nakao, Takehiko. 2020. *How the Asian Economy Has Changed: Diary of an Asian Development Bank President*, Chuokoron Shinsya (Japanese), see Chapter 6.

³⁶ The Prime Minister's Office of Japan, June 6, 2017, “Speech by Prime Minister Abe at the 23rd International Exchange Conference “Future of Asia” Dinner”.
https://www.kantei.go.jp/jp/97_abe/statement/2017/0605speech.html.

³⁷ Hu, et al. 2019.

³⁸ METI, “Memorandum of Understanding (MOU) signed on the occasion of the First Japan-China Third Country Market Cooperation Forum”, October 26, 2018. <https://www.meti.go.jp/press/2018/10/20181026010/20181026010-1.pdf>.



The Future of Japan-China Relations

*openness, transparency, economic efficiency, financial soundness, and other such aspects of the infrastructure. Japan wishes to cooperate from this viewpoint.*³⁹

The four conditions given here, namely, openness, transparency, economic efficiency, and financial soundness, form the foundation of Japanese cooperation with China.⁴⁰ However, some in Japanese policy circles believe that there are no projects that can realistically fulfill all four conditions. Nevertheless, Abe's visit to Beijing in October 2018 was a highlight of his China policy, as the Japanese government gave formal notification of the termination of new ODA projects, while the two governments jointly announced 52 projects aimed at economic cooperation in third-country markets.⁴¹ While third-country market cooperation has been jointly pursued, its real outcome is yet unclear. China has begun to employ the term "Quality Belt and Road (*Gaozhiliang Yidai Yilu*)," even though the definition of quality might differ from that of Japan or other countries.⁴² Nevertheless, the policy attitude of Japan toward China's infrastructure initiative has shifted from a policy of disregard to one of conditional engagement.⁴³

The Japanese government also appears to be simultaneously following a careful hedging strategy. The establishment of the NSC in December 2013 represents a strategic adjustment in a broad sense. This body was proposed during Abe's first period in office in the 2000s, and the

³⁹ Abe, Shinzo. 2017. "Press Conference by Prime Minister Shinzo Abe Following His Attendance at the APEC Economic Leaders' Meeting, ASEAN-related Summit Meetings, and Other Related Meetings", Speech, Philippines, November 14, 2017.

⁴⁰ During this period, the author had publicly proposed that Japan should join to the AIIB by stating "In order for Japan to sustainably expand its involvement in development in Asia, where demand is remarkable, it is desirable for Japan to be involved in the concept of a more diverse regional economic initiative through participation in the AIIB, which is building an institutionalized management system, while maintaining the Asian Development Bank (ADB), which is led by Japan and the United States as its base axis". Ito, Asei. 2017. "How to look at China's "One Belt, One Road" Involvement through the Asian Investment Bank", *Nihon Keizai Shimbun*, July 20th, 2017. <https://www.nikkei.com/article/DGKKZO18998440Z10C17A7KE8000/>.

⁴¹ The official evaluation of the Japanese ODA to China by the Chinese government appeared during Abe-Xi meeting, Beijing, October 26th, 2018. A meeting summary by the Japan side is as follow: "In light of the termination of new ODA to China, Prime Minister Abe expressed his hope to build an era in which the two countries will work side by side to contribute to regional and global stability and prosperity through dialogue and human resource exchange in the field of development and cooperation on global issues. In response, President Xi expressed his high appreciation for Japan's ODA contributions and made positive remarks about such cooperation," Summary by MOFA, Japan. https://www.mofa.go.jp/mofaj/a_o/c_ml/cn/page4_004452.html. Also, the views of Mr. Shinichi Kitaoka, President of JICA, are as follows: "In conjunction with the Prime Minister's visit to China, it was officially decided that Japan's ODA to China will be terminated. It is significant that China expressed its "gratitude" for Japan's ODA to China, and we should continue to maintain a cooperative relationship with China. In my personal opinion, 'international cooperation' is not limited to assistance to poor countries. Depending on the international and domestic situation, there is room for JICA to cooperate with China." In *International Development Journal*, January 2019, "Special Interview (January issue): Emphasizing ODA in an Era of "Home Country First" (Japanese). <https://partner.jica.go.jp/resource/1550110094000/journalView201901/journal/journal/201901-06.html>.

⁴² Ito, Asei. 2019. "China's Quest for a "High-quality Belt and Road Initiative"", AJIAA-Commentary, July 18 2019. http://www2.jiia.or.jp/en_commentary/201907/18-1.html.

⁴³ Ito, Asei. 2019. "China's belt and road initiative and Japan's response: from non-participation to conditional engagement", *East Asia: An International Quarterly*, 36(2), pp.115-128.



The Future of Japan-China Relations

Democratic Party of Japan (DPJ) also considered pursuing it when it governed between 2009 and 2012. But Abe realized the plan in 2013 with a small staff (in either a four-minister meeting or a nine-minister meeting) supported by a bureaucratic body. NSC meetings were held particularly frequently in 2017, due to North Korean nuclear and missile tests. The NSC has also held meetings regarding China-related issues focused mostly on security challenges such as coercion around the Senkaku Islands. But the NSC added an “Economic unit (*Keizai han*)” in April 2020, widely considered a response to U.S.–China strategic competition that became increasingly centered on economic security.⁴⁴

A year after Donald Trump took office, U.S.–China confrontation began on trade issues and it gradually became clear that the relationship was becoming one of strategic competition. New issues in the relationship concerned questions of technology, as manifested by equipment problems found in Huawei 5G, and the extent to which the United States, in coordination with allies and partners, should decouple from the Chinese economy and limit China’s capacity to dominate the market in sensitive and emerging technologies for reasons of national security. Japan, meanwhile, became increasingly focused on diversifying manufacturing and investment to support supply chain resiliency in response to the Covid-19 pandemic.

In April 2020, Japan proposed a new pair of initiatives: The Supply Chain Diversification Support Project (SCDSP)⁴⁵ and the Supply Chain Resilience Initiative, a part of the initiative has been implemented with the Association of Southeast Asian Nations (ASEAN).⁴⁶ Both initiatives are regarded as new attempts to reduce dependency on China in key medical and manufacturing production capabilities.⁴⁷ These programs have been called “decoupling kabuki,” as they only entail minor adjustments given the vast amount of Japanese foreign direct investment into China.⁴⁸ Yasuyuki Todo, a Japanese specialist on international economics, questioned the basis for the initiative, saying that “what is needed is not support for a return to the domestic market or the relocation of production bases to Southeast Asia. We need to support a wide range of overseas businesses, especially those with high added value, that is not limited to a single

⁴⁴ *Nihon Keizai Shimbun*, “National Security Council Establishes Economic Unit, Urgently Needs to Respond to New Corona”, April 1st, 2020. <https://www.nikkei.com/article/DGXMZO57510630R00C20A4PP8000/>.

⁴⁵ METI, “Overseas Supply Chain Diversification Support Project”. May 26, 2020 to March 27, 2021. <https://www.jetro.go.jp/services/supplychain>. METI, “Subsidy for domestic investment promotion project for supply chain measures”. <https://www.meti.go.jp/press/2020/11/20201120005/20201120005.html>

⁴⁶ METI, “Supply Chains Resilience Initiative (SCRI) with ASEAN”, April 22, 2020. <https://www.meti.go.jp/press/2020/04/20200422005/20200422005.html>.

⁴⁷ METI. 2020. *White Paper on International Economy and Trade (2020)*. <https://www.meti.go.jp/report/tshuhaku2020/2020honbun/i2110000.html>.

⁴⁸ Kennedy, Scott, and Matthew Goodman. 2020. “Decoupling Kabuki: Japan’s Effort to Reset, Not End Its Relationship with China,” July 28th, 2020. <https://www.csis.org/analysis/decoupling-kabuki-japans-effort-reset-not-end-its-relationship-china>.



The Future of Japan-China Relations

region.”⁴⁹ A JETRO survey conducted in December 2020 found that 7.2 percent of Japanese manufacturing subsidiaries working in China were considering where to locate their production for the medium to long term,⁵⁰ but that hard decoupling would not be feasible in the short term, given the pandemic and the economic irrationality of such moves.

More broadly, the Japanese strategy to hedge external risks has taken a multilateral approach. The Japanese government took leadership of the TPP agreement after the Trump administration withdrew from it. As China has openly shown a positive attitude to joining the TPP in 2020, the geo-economic meaning of TPP is not fixed yet.

Key Questions

Why Did Japan Advance a Dual Approach?

Why, during the second Abe administration, did Japan advance a dual approach to China? First, the economic fundamentals are the most important factor behind Japanese pragmatic approach. China’s economic rise resulted in a significant rebalancing of power between Japan and China, as well as between the United States and China. China’s nominal GDP surpassed that of Japan in 2010, and China is approximately three times larger than Japan in terms of nominal GDP in 2020.⁵¹ Japan’s maritime tensions with China have caused Japan significant political risk, which requires a hedging strategy. At the same time, as labor and manufacturing costs rise in China, businesses have been attracted to China as a market rather than a production base, and are further incentivized by China’s economic gravitational pull, moving relations in a cooperative direction.

Another related factor is the existing trade network and economic interdependence between Japan and China. As Figure 1 has shown, the share of Chinese trade (both export and import) has risen at a rapid pace since the 2000s, reaching the highest level in post-war history at 21.7 percent in 2017. The Chinese economy today has a two-sided gravitational effect. On the production side, the formation of manufacturing clusters as well as improved research and development capabilities generate substantial agglomeration economies, while on the consumption side, the rising middle class creates one of the largest home-market effects, both of which are strong incentives to operating in China. One Japanese businessperson told me that

⁴⁹ *Nihon Keizai Shimbun*, “The World after the Corona Shock: Companies must continue to diversify their production and procurement”, April 16, 2020.

<https://www.nikkei.com/article/DGKKZO58080800V10C20A4KE8000/>.

⁵⁰ JETRO. 2020. “FY2020 Survey on the Actual Condition of Japanese Companies Operating Overseas (Asia and Oceania, December 2020)”. https://www.jetro.go.jp/ext_images/Reports/01/b5dea9948c30e474/20200017.pdf.

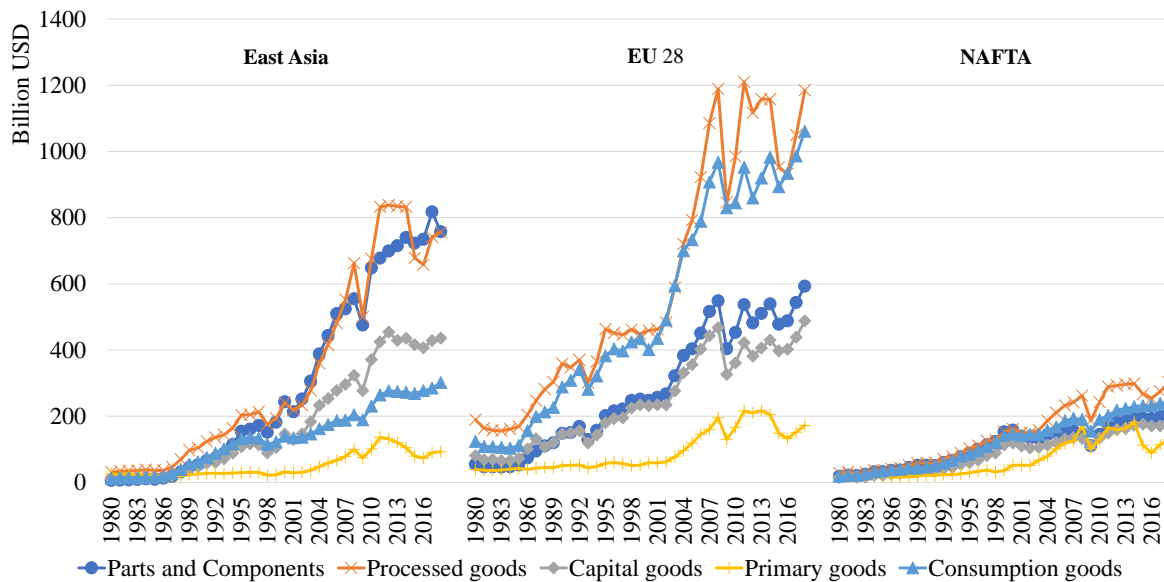
⁵¹ In 2020, the nominal GDP for Japan was 529.19 trillion yen (approximately 5 trillion USD) whereas China’s nominal GDP reached 15.4 trillion USD. See the Cabinet Office of Japan (<https://www.esri.cao.go.jp/jp/sna/menu.html>) and National Bureau of Statistics of China. 2021. “National Economy Recovered Steadily in 2020 with Main Goals Accomplished Better Than Expectation”, January 18, 2021. http://www.stats.gov.cn/english/PressRelease/202101/t20210118_1812432.html.



The Future of Japan-China Relations

“without competing inside the Chinese market, we will lose a global position.” The presence of agglomeration economies in China limits the feasibility of the China Plus One strategy as the supply chain network has already formed, centered in China. Figure 3 below shows the decomposition of intra-regional trade in East Asia, the European Union, and NAFTA regions. A feature of East Asia’s economic development is a large amount of intra-regional trade in parts and components,⁵² which is a result of lower trade costs and active foreign direct investments.⁵³ As a result, full scale of decoupling with China is economically unfeasible in East Asia.

Figure 3. Intra-Regional Trade Structure in East Asia, EU, and NAFTA (1980-2018)⁵⁴



An interesting question is why the Abe administration adjusted policy toward China in 2017. Besides business interests and the general need to rescue the bilateral relationship from its poor situation, another possible reason could be Japan’s desire for China to exert its influence over North Korea to reduce the ballistic missile threat. In 2017, North Korea launched ballistic missiles 16 times, including some that were sent over Hokkaido. According to official information, 46 meetings of the NSC were held in 2017 (a combined total of the four-minister

⁵² In RIETI-TID database 2018 version, EU28 still contains United Kingdom, and East Asia consist of Japan, China, Hong Kong, South Korea, Taiwan, Singapore, Indonesia, Malaysia, Philippines, Thailand, Brunei, Cambodia, and Vietnam. https://www.rieti.go.jp/en/projects/rieti-tid/pdf/about_en.pdf.

⁵³ Kimura, Fukunari. 2006. International production and distribution networks in East Asia: Eighteen facts, mechanics, and policy implications. *Asian Economic Policy Review*, 1(2), pp.326-344.

⁵⁴ Source: Research Institute of Economy, Trade and Industry (RIETI), Trade Industry Database (TID), 2018 edition.



The Future of Japan-China Relations

meetings and the nine-minister meetings).⁵⁵ Of these 46 meetings, 25 dealt with the North Korean issue, and 8 of these were concentrated in April alone. When Nikai visited Beijing to participate in the BRI International High-Level Forum in May 2017, he brought with him a letter from Abe to Xi which includes the North Korean issue.⁵⁶ As Abe's first positive remarks on the BRI came in June 2017, these two issues appear to have proceeded in parallel. This period exemplifies how Japan can use economic engagement to support its national security objectives.

Finally, a close personal connection with President Trump allowed Abe to explain and implement a dual approach towards China, though that became more challenging as the U.S. position on China hardened.⁵⁷ The intensification of the U.S.–China confrontation in 2018 and thereafter altered the diplomatic landscape in the region and will affect Japan's approach going forward. Japan's economic policy towards China in the post-Abe period will face much greater and more complex challenges, such as the question of extraterritorial enforcement that both the United States and China can exert through sanctions, which could affect Japanese companies in coming years.

How Deep are Japan's Hedging and Engagement Strategies?

The second question relates to the possible depth of both hedging and engagement towards China. The SCDSPP, as noted, has been called decoupling kabuki. It is also reasonable to say that such minor intervention is observable by those in favor of economic decoupling (hedging) and those in favor of enhancing cooperation (engagement). On the decoupling side, as noted, the existing diversification program is marginal compared to the total Japanese FDI stock in China. On the cooperation side, third-country market cooperation is only just getting underway and is still at an early stage. Although the absolute impacts remain marginal, Japan's dual approaches are not merely superficial and support a sophisticated strategy in the context of confrontation and uncertainty between the United States and China.

A comprehensive understanding and assessment of Japanese strategy reveals several layers (see Table 1 below). Recent projects including the SCDSPP appear on a surface layer, where the practical project and programs are included, while the middle layer contains legal acts and multinational agreements. Policy practices on the surface layer can be completed over the course of an administration or even during a single fiscal year, while the implementation of the middle layer requires a longer policy cycle, perhaps over several administrations. The bottom and foundational layers depend on a wider and deeper political consensus across parties and

⁵⁵ See “National Security Council: Status of Meetings” at the homepage of the Prime Minister of Japan and His Cabinet. <https://www.kantei.go.jp/jp/singi/anzenhosyoukaigi/kaisai.html>.

⁵⁶ *Sankei Shimbun*, “LDP Secretary-General Toshihiro Nikai meets with Chinese President Xi Jinping, Prime Minister Shinzo Abe calls for mutual visits in a letter”, May 16, 2017. <https://www.sankei.com/politics/news/170516/pl1705160028-n1.html>.

⁵⁷ Putz, Catherine. 2019. “The Art of the Balance: Japan, China and the U.S.”, *The Diplomat*, January 30, 2019. <https://thediplomat.com/2019/01/the-art-of-the-balance-japan-china-and-the-united-states/>.



The Future of Japan-China Relations

generations. Thus, the RCEP and the fifth political documents of the Japan–China relationship fall on the engagement side in the middle layer. Simultaneously, the establishment of the NSC and the signing of the CPTTP can be placed as hedging-competition on the middle layer.

Table 1. The Second Abe Administration’s Approach toward China⁵⁸

	Hedging/Competition	Engagement/Cooperation
Surface layer (programs, projects)	Supply-chain diversification Program	Third-country market cooperation
Middle layer (domestic bureaucratic and legal setting, bilateral official document, multinational agreement, business consensus)	CPTPP, Japan–EU Economic Partnership, Japan-United States Trade Agreement, NSC, Comprehensive Economic Security Promotion Act (recommended)	RCEP, Fifth Political Document (on the Japan–China relationship, not materialized)
Bottom layer (strategy and basic approach)	Free and Open Indo-Pacific (FOIP) concept	
Foundational layer	The U.S.-Japan Alliance	

According to a media report, if President Xi Jinping’s Spring 2020 state visit to Japan had been realized, the two governments might have released the fifth political document on the Japan-China relationship.⁵⁹ According to Nikai’s remarks in September 2020, had that been the case, the fifth document was expected to have been signed and “we would strengthen our determination to achieve world peace and prosperity together, with Japan and China playing a central role in the so-called ‘co-creation (*kyosou*)’ of the world.”⁶⁰ The word *kyousou* does not represent a brand-new concept in the Japan–China relationship, as Prime Minister Yasuo Fukuda previously referred to a similar expression in his speech entitled “Let’s Create a Future Together (*Tomoni Mirai wo Tsukurou*)” in 2007.⁶¹ Nevertheless, Akio Takahara, a specialist in Chinese politics, has proposed a cautious approach to the possible fifth document, prioritizing a careful

⁵⁸ Source: Drafted by the Author.

⁵⁹ *Nihon Keizai Shimbun*, “Japan and China to Consider ‘Fifth Document’”, Sep 28, 2020. <https://www.nikkei.com/article/DGKKZO50331530X20C19A9FF8000/>. *Nihon Keizai Shimbun*, “The Fifth Document” to be Considered by Both Governments During Xi’s Visit to Japan”, Nov 2, 2020. <https://www.nikkei.com/article/DGKKZO51690680R01C19A1MM8000/>.

⁶⁰ Regarding Mr. Nikai’s mention, see following news sources. *Nihon Keizai Shimbun*, “Japan-China ‘co-creation’ the key word, LDP Secretary General Nikai said”, September 17, 2020. <https://www.nikkei.com/article/DGXMZO63982220X10C20A9PP8000/>. *Asahi Shimbun*, “Mr. Nikai: Japan-China Relations “Spring in Anyone’s Mind”; Hopes for Xi’s Visit to Japan”, September 18th, 2020. <https://www.asahi.com/articles/ASN9L567BN9KUTFK017.html>. For an earlier mentioning, see *Nihon Keizai Shimbun*, Japan-China ‘Co-Creation’ from Mutual Benefit, Nikai to Speak in Beijing”, December 28, 2017. <https://www.nikkei.com/article/DGXMZO25196870Y7A221C1EAF000/>.

⁶¹ Fukuda, Yasuo. 2007. “Let’s Create a Future Together (*Tomoni Mirai wo Tsukurou*),” Speech, Peking University, Beijing, China, December 28, 2007.



The Future of Japan-China Relations

review of the previous four documents.⁶² One critical topic in previous documents relates to hegemony, as the Joint Communiqué in 1972 clearly states:

*The normalization of relations between Japan and China is not directed against any third country. Neither of the two countries should seek hegemony in the Asia-Pacific region and each is opposed to efforts by any other country or group of countries to establish such hegemony.*⁶³

In the negotiation process of the Japan-China Treaty of Peace and Friendship, the Chinese government was eager to persuade Japan to include the “anti-hegemony” clause, which was widely recognized as an anti-Soviet Union strategy in the 1970s.⁶⁴ Given the growing global influence of China, what does this clause mean in the 2020s? If the Japanese government truly takes the importance of these documents into account, the next document, if necessary, should be placed on the middle layer of the above chart, based on a serious consideration and discussion. It should not be on the surface layer led by a small circle or without consensus among domestic actors.

Another middle layer item, RCEP, refers to rule-based engagement with China as the agreement contains a dispute settlement mechanism in certain chapters. Although the level of liberalization is lower than that contained in the CPTPP, the agreement contains a chapter on electronic commerce in chapter 12, for example, where multilateral agreements appear for the first time in relation to China.⁶⁵ RCEP does allow for government intervention for national security and public policy needs. In response to this, Dr. Shintaro Hamanaka has criticized the agreement for potentially benefiting China too much,⁶⁶ but other evaluations by Japanese academics have generally been positive.⁶⁷

⁶² JIJI.COM, “Seeking Ways to Compete and Cooperate with China: Intellectuals View on the Japan-China Diplomacy”, Jan 29th, 2021. <https://www.jiji.com/jc/v4?id=20200129world0001>.

⁶³ MOFA, “Joint Communiqué of the Government of Japan and the Government of the People's Republic of China”, September 29, 1972. <https://www.mofa.go.jp/region/asia-paci/china/joint72.html>. Also see the article 2 of the “Treaty of Peace and Friendship between Japan and China”, August 12, 1978. https://www.mofa.go.jp/mofaj/area/china/nc_heiwa.html.

⁶⁴ For the initial meaning of “antihegemony” in the documents, see Tanaka (1991) and Inoue (2018).

⁶⁵ Leblond, Patrick. 2020. “Digital Trade: Is RCEP the WTO’s Future?” Centre for International Governance Innovation, November 23, 2020. <https://www.cigionline.org/articles/digital-trade-rcep-wtos-future>.

⁶⁶ Hamanaka, Shintaro. 2021. “What the RCEP Signing Means?: A Geopolitical View”, IDE Square, November 2021. https://www.ide.go.jp/Japanese/IDESquare/Eyes/2020/ISQ202020_039.html.

⁶⁷ Kimura, Fukunari. 2021. “The Key to the Development of Mega FTA Strategies: A New Phase of Trade Policy”, *Nihon Keizai Shimbun*, Jan 19th, 2021. <https://www.nikkei.com/article/DGXXKZO68252940Y1A110C2KE8000/>. Nakagawa, Junji. 2021. “TPP expansion to be promoted after U.S. return: A new phase of trade policy”, *Nihon Keizai Shimbun*, Jan 20th, 2021. <https://www.nikkei.com/article/DGXXKZO68294020Z10C21A1KE8000/>. Oba, Mie. 2021. “RCEP, not at odds with TPP: A new phase of trade policy”, *Nihon Keizai Shimbun*, January 21, 2021. <https://www.nikkei.com/article/DGXXKZO68333030Q1A120C2KE8000/>.



The Future of Japan-China Relations

The establishment of the NSC and its economic unit constitutes a substantial expression of domestic hedging strategy, while CPTPP and the Japan–EU EPA are multilateral hedging frameworks to help promote a rule-based economic order. The Japanese strategy in the middle layer is characterized as a multilateral and rule-based approach. On the engagement side, a METI’s report in 2019 calls this rule-base trade policy, and attempt to bridge-make between U.S. and China based on rules.⁶⁸ On hedging side, Professor Mie Oba calls the multilateral approach “institutional hedging,” a practice that began in the early 2010s.⁶⁹ For this reason, President Xi’s positive attitude toward the CPTPP in 2020 surprised Tokyo. China’s interest in the CPTPP will be a new challenge for the Japanese approach, as socialist Vietnam has already joined the agreement.

The Japanese approach also has deeper layers, namely, the bottom layer and the foundational layer, which are rooted in deeper strategic needs. The Free and Open Indo-Pacific (FOIP) concept remains premature and is not yet well defined.⁷⁰ FOIP does not exclude and directly compete with China, according to Shinzo Abe’s remarks in 2017,⁷¹ while related frameworks, such as the Quadrilateral Security Dialogue (Quad), are regarded as relating to security cooperation toward containing China. However, as many countries, including ASEAN,⁷² Germany,⁷³ the United Kingdom,⁷⁴ and France,⁷⁵ begin to refer to FOIP, it will remain a key

⁶⁸ “In response to the deepening confrontation between the U.S. and China, Japan, which is deeply involved in both economies, aims to promote “bridge building” through rule-making.” See METI. 2019. “Current Status and Future Direction of External Economic Policy”, The 6th meeting of the Trade and Industry Subcommittee, Industrial Structure Council, METI, June 19, 2019.

https://www.meti.go.jp/shingikai/sankoshin/tsusho_boeki/pdf/005_02_00.pdf.

⁶⁹ Oba, Mie. 2020. “Regional Economic Institutions and Japan’s Leadership: The Promotion of Institutional Hedging”, Center for Strategic & International Studies (CSIS) Strategic Japan Program Paper, 2020.

<https://www.csis.org/programs/japan-chair/strategic-japan-working-papers#2020>.

⁷⁰ For a Japanese discussion, see Indo-Pacific Cooperation Research Group, GRIPS Policy Research Institute. 2020. “Toward Stability of the International Order and Promotion of International Cooperation in the Indo-Pacific in the Post-Pandemic Era: Policy Recommendations to the Japanese Government on Indo-Pacific Cooperation”, October 29, 2020. <https://www.grips.ac.jp/cms/wp-content/uploads/2020/10/GRIPS.pdf>.

⁷¹ “I want to make the region from the Pacific Ocean to the Indian Ocean free and open based on fair rules. I believe that this vast ocean should be an international public good that will bring peace and prosperity to all people without distinction in the future. Under this free and open Indo-Pacific strategy, I believe that Japan can cooperate with China, which has the concept of One Belt, One Road”. See Shinzo Abe’s speech at the “Welcome Reception for the 3rd Japan-China Entrepreneurs and Former Senior Government Officials Dialogue (Japan-China CEO Summit) 2017”, December 4, 2017. https://www.kantei.go.jp/jp/98_abe/actions/201712/04taiwa_kangei.html.

⁷² ASEAN. 2019. *ASEAN Outlook on the Indo-Pacific*, June 23, 2019. <https://asean.org/asean-outlook-indo-pacific/>.

⁷³ The Federal Government, Germany. 2020. *Policy guidelines for the Indo-Pacific region: Germany – Europe – Asia: Shaping the 21st century together*, September 2020.

⁷⁴ Her Majesty’s Government, the United Kingdom. 2021. *Global Britain in a competitive age The Integrated Review of Security, Defence, Development and Foreign Policy*, March 2021.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/969402/The_Integrated_Review_of_Security_Defence_Development_and_Foreign_Policy.pdf.

⁷⁵ Ministère des Armées, République Française. 2018. *France and Security in the Indo-Pacific 2018* (updated in May 2019).



The Future of Japan-China Relations

element of Japanese policy in the future. Two realistic reasons for Japan to prioritize FOIP are that Japan does not have sufficient geo-economic power to implement any grand design alone, and Japan is regarded as a trustworthy partner by many nations, particularly by ASEAN countries.⁷⁶ Lastly, the U.S.-Japan alliance has a foundational importance for Japan particularly in terms of national security as it guarantees U.S. commitment to the region.

What is the Trajectory of Japan's China Strategy?

The Covid-19 pandemic has had a significant impact on the regional and global economic landscape. Substantial damage to GDP, unemployment, and disruption in supply chains are major issues caused by the pandemic. China, the epicenter of the pandemic, was able to contain the spread of the virus by the second quarter of 2020, and its economy grew 2.3 percent in 2020. Nevertheless, the pandemic has had an outsized impact on Japan–China relations. Among the most important effects, already mentioned, was that the postponement of Xi Jinping's official trip to Japan.⁷⁷ As early as February 2020, the pandemic also made it impossible to ignore Japan's dependency on China's manufacturing capacity.⁷⁸ People's feelings about China became even more unfavorable, falling below the earlier negative image of China that public surveys had measured before Covid-19.⁷⁹ However, because the Chinese economy was one of the least damaged by Covid-19,⁸⁰ China's domestic market and businesses are becoming increasingly more important, not only to Japanese companies but also for all major foreign companies in China.

Xi's visit to Japan was expected to showcase the effectiveness of Abe's approach towards China. Now, a year after the official announcement of the postponement of the trip, the domestic and global diplomatic landscape has measurably altered. Several notable changes were seen in 2020: Abe left office; China's diplomatic practices, including its enforcement of the Hong Kong National Security Law, attracted negative attention; and there has been a conflict on the border between China and India. All of this has strengthened anti-China sentiment. However, at the same time, the Chinese economy continues to be important. The absence of Chinese tourists has had negative effects on local economies in Japan, and as the Chinese economy has continued to

<https://www.defense.gouv.fr/layout/set/print/content/download/532754/9176250/version/3/file/France+and+Security+in+the+Indo-Pacific+-+2019.pdf>.

⁷⁶ Seah, Sharon, Hoang Thi Ha, Melinda Martinus, Pham Thi Phuong Thao ed. 2021. "The State of Southeast Asia: 2021 Survey Report", the ASEAN Studies Centre at ISEAS-Yusof Ishak Institute (ISEAS).

<https://www.iseas.edu.sg/wp-content/uploads/2021/01/The-State-of-SEA-2021-v2.pdf>.

⁷⁷ Prime Minister's Office of Japan, "Postponement of Chinese President Xi Jinping's Visit to Japan", March 5th, 2020. https://www.kantei.go.jp/jp/tyoukanpress/202003/5_p.html.

⁷⁸ *Nihon Keizai Shimbun*, "Komatsu continues to walk a tightrope in production due to new pneumonia, parts from outside China", Feb 15th, 2020. <https://www.nikkei.com/article/DGXMZ055678660V10C20A2MM8000/>.

⁷⁹ *The Japan Times*, "Japan records most negative view of China as unfavorable opinions surge, survey finds", October 6, 2020. <https://www.japantimes.co.jp/news/2020/10/06/national/japan-most-negative-view-china-survey/>.

⁸⁰ International Monetary Fund. 2021. *World Economic Outlook Update*, January 2021.

<https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update>.



The Future of Japan-China Relations

show positive growth Japanese companies based in China feel an even greater incentive to cultivate Chinese markets.

Due to its confrontation with the United States, the Chinese government is actively publishing policies and proposals on economic security topics. One new strategy, called the dual circulation (*shuang xunhuan*), was presented in May 2020.⁸¹ The new 5-year plan and long-term plan have adopted this concept, which emphasizes the self-sufficiency of demand and technology and security issues (*anquan*).⁸² The Chinese government has tightened regulations on FDI and export controls and has released the Chinese version of the entity list (*Bu Kakao Shiti Mingdan*).⁸³ The Extraterritorial Application of Foreign Legislation was released in December 2020.⁸⁴

In this complex situation, the trajectory of Japanese policy toward China appears to be heading in a hedging and competitive direction. One piece of evidence of this adjustment is the LDP document entitled “Toward Developing Japan's Economic Security Strategy,” published in December 2020.⁸⁵ The core concepts of the document are strategic autonomy, strategic indispensability, and strategic core industries. It recommends that the government should enact a comprehensive economic security promotion act in the ordinary Diet session in 2022.⁸⁶ A wide range of topics, such as energy security, technology security and export controls, and land ownership are discussed. Because these documents refer to China most frequently, it is widely regarded that the recommendations are intended to strengthen risk management related to China though they do not aim to fully decouple from China.⁸⁷

Although Japan's current policy trajectory shows a tendency toward hedging approaches, Japanese and other foreign companies in China, including U.S. companies, are facing an

⁸¹ Xinhua News Agency, “Xi Jinping attends economic sector members of CPPCC meeting”, May 23rd, 2020. http://www.xinhuanet.com/politics/2020-05/23/c_1126023987.htm.

⁸² The Central Committee of the Chinese Communist Party. 2020. “Proposal of the Central Committee of the Communist Party of China on Formulating the Fourteenth Five-Year Plan for National Economic and Social Development and the Visionary Goals for 2035”, November 11, 2020. http://www.gov.cn/zhengce/2020-11/03/content_5556991.htm.

⁸³ The Ministry of Commerce, China. 2020. “The Ministry of Commerce Order No.4 of 2020 unreliable entities list provisions”, September 19, 2020. <http://tfs.mofcom.gov.cn/article/bc/202009/20200903002593.shtml>.

⁸⁴ The Ministry of Commerce, China. 2020. “The Ministry of Commerce Order No. 1 of 2021 on Rules on Counteracting Unjustified Extra-territorial Application of Foreign Legislation and Other Measures”. <http://english.mofcom.gov.cn/article/policyrelease/announcement/202101/20210103029708.shtml>.

⁸⁵ Strategic Headquarters on the Creation of a New International Order of Policy Research Council, Liberal Democratic Party of Japan. 2020.

⁸⁶ Regarding the strategic indispensability, following paper also mentions the concept. The PHP Institute. 2020. “Recommendation Report: Japan's Course in the Era of High-Tech Hegemony: Aiming to be a free, open, and leading country by securing “strategic indispensability””, April 2, 2020. <https://thinktank.php.co.jp/policy/6092/>.

⁸⁷ According to author's counting, the document includes the “China” for 41 times, “United States” for 25 times, “E.U.” for 18 times, “India” for 12 times, “Indo-Pacific” for 10 times, “Australia” for 8 times, “Russia” for 7 times, and “North Korea” for 0 times.



The Future of Japan-China Relations

enormous economic incentive to remain in the Chinese market. According to a recent survey by Japan Bank for International Cooperation (JBIC) conducted between August and November 2020, China is reported to be the most prominent market in the 3-year forecast, partly because of its rapid recovery from the pandemic.⁸⁸ In the consumer products market in particular, China's extensive and growing middle-class consumer market is indispensable for many companies. This incentive is evident to all leaders of major foreign companies in the durables and consumer segment. President Xi himself wrote to Howard Schultz, Starbucks' former CEO, in January 2021, saying, "I hope that Starbucks Corporation will make positive efforts to promote economic and trade cooperation between China and the United State and the development of relations between the two countries."⁸⁹ Japan's case, traditionally the Japanese automobile industry and electronics industry, such as Toyota, Honda, Nissan, Hitachi, and Panasonic, have cultivated the Chinese market, and they have expanded businesses in terms of revenue in spite of past political turbulence. A notable change in Japanese investment to China is the relative increase of non-manufacturing sectors. In the consumer products market, Uniqlo, Muji, Shiseido are popular brands in the Chinese market as the Chinese middle class demands higher quality products.⁹⁰ It is only natural for a business owner in a consumer or non-sensitive product segment to want to maximize market opportunity in emerging economies, including China. Without a doubt, the purchasing power of the rising Chinese middle-class will be outstanding. Corporate activities in non-sensitive markets thus far appear to be isolated from policy debates about economic security and China risks.

Unfortunately, reality is not so simple. Business engagement with China often comes with Chinese expectations of pro-China support and other political risks. For example, Taiwanese companies cultivated mainland China markets (often called *Taishang*), including consumer segments, and as a result these Taiwanese companies have been expected to act as pro-China activists in domestic political affairs, even being called a Chinese shadow or Chinese agent.⁹¹ Japanese companies have faced political risks from China since the 2000s, while Taiwanese economies and companies have generated even greater interdependence with China. After the virtual Quad leaders' meeting in March 2021, the Chinese media did not hesitate to imply the powerful leverage exerted by the Chinese domestic market, stating, "China is the

⁸⁸ The survey has been conducted in August to November 2020 by the JBIC. See JBIC. 2021. "Survey Report on Overseas Business Development of Japanese Manufacturing Companies: Results of the Fiscal 2020 Overseas Direct Investment Survey (32nd Edition)", January 15, 2021. https://www.jbic.go.jp/ja/information/press/press-2020/pdf/0115-014188_4.pdf.

⁸⁹ *Xinhua News Agency*, "President Xi Jinping Replies Letter to Howard Schultz, Emeritus Chairman of the Board of Directors of Starbucks Corporation", January 14th, 2021. http://www.xinhuanet.com/politics/leaders/2021-01/14/c_1126982101.htm.

⁹⁰ For a move by Japanese entrepreneur, Mr. Tadashi Yanai, the founder and CEO of Fast Retailing (UNIQLO), met with Kong Xuanyou, the Chinese ambassador to Japan, in August 2020. "Ambassador Kong Xuanyou meets with Fast Retailing Chairman and CEO Tadashi Yanai", The Embassy of the People's Republic of China in Japan, August 26, 2020. <http://www.china-embassy.or.jp/jpn/sgxw/t1810086.htm>.

⁹¹ Wu, Jieh-min. 2016. "The China Factor in Taiwan: Impact and Response", in Gunter Schubert ed. *Handbook of Modern Taiwan Politics and Society*, Routledge, pp.425-445.



The Future of Japan-China Relations

largest trading partner for Japan, India, and Australia, and no one would want to lose this huge market.”⁹² As shown by a recent case of the boycott of H&M products by Chinese consumers in March 2021,⁹³ the business community in non-sensitive segments must also be aware of possible risks from geopolitical affairs.⁹⁴

Rising tensions between Japan and China remind us of the “cold politics, hot economy” of the 2000s, as well as the coupling of politics and the economy in the 1950s and 1960s. In the 2020s, theoretically it is possible that the Japan-China economic relationship will return to an age of a coupling of politics and the economy, while the interdependence between the two nations still moderately safeguards such risks. Nevertheless, even if the relationship returns to a coupling of economics and politics, the economic power balance between Japan and China in the 2020s is totally different from that of the post-war period.

Remaining Issues

The Japanese and U.S. approaches to China are both moving in a more competitive direction, backed by a growing consensus that the policy circles in both nations are all increasingly recognizing China as a security threat. Zack Cooper calls this trend the “alliance advocates school.”⁹⁵ Even though this recognition is becoming mainstream, questions remain.

A fundamental issue related to policy toward China resides in the objectives of China policy. What policy goals do Japan and the United States share? There are several problems: the U.S. trade deficit; China’s unfair trade and industrial practices, which include subsidies to State Owned Enterprises (SOEs), industrial policies such as Made in China 2025, and others; its technology theft and dominance; and its political regime and values. Former Vice President Mike Pence spoke of the Chinese Communist Party (CCP) as a major threat to the United States and

⁹² The CRI Online, “Japan-U.S.-Australia-India “Quad,” a small circle to control China, will surely end in futility”, March 17, 2021. <http://japanese.cri.cn/20210317/ddf586be-f09f-5484-f341-7ca9def36abd.html>.

⁹³ *Nikkei Asia*, “H&M under heat in China for past statement on Xinjiang labor: Retailer's online store inaccessible on Alibaba's Tmall”, March 25, 2021. <https://asia.nikkei.com/Business/Retail/H-M-under-heat-in-China-for-past-statement-on-Xinjiang-labor>. Regarding this topic, see following report. Zenz, Adrian. 2020. “Coercive Labor in Xinjiang: Labor Transfer and the Mobilization of Ethnic Minorities to Pick Cotton”, Newlines Institute for Strategy and Policy, Intelligence Briefing, December 2020. <https://newlinesinstitute.org/china/coercive-labor-in-xinjiang-labor-transfer-and-the-mobilization-of-ethnic-minorities-to-pick-cotton/>

⁹⁴ Another remaining question related to business matter is how much cooperation with China can be done in emerging segment such as big data, green, and financial sector. For finance, Japan-China ETF connectivity began in 2019. Global Strategy Department, Japan Exchange Group, Inc. 2019. “The Current Status of ETF Connectivity between Japan and China”, December 3, 2019. <https://www.fsa.go.jp/singi/chuukinken/siryou/1203jpx.pdf>.

⁹⁵ Cooper, Zack. 2021. “Parsing Differing U.S. Views on Japan’s Approach to China”, Alliance Policy Coordination Brief, Carnegie Endowment for International Peace and the Japan Forum on International Relations, Inc. <https://carnegieendowment.org/2021/01/26/parsing-differing-u.s.-views-on-japan-s-approach-to-china-pub-83708>



The Future of Japan-China Relations

other liberal democratic societies,⁹⁶ and a recent paper entitled “The Longer Telegram: Toward a New American China Strategy,” called for U.S. policy responses to focus on a narrower group, President Xi Jinping and his circle, rather than confronting the CCP as a whole.⁹⁷ A more pragmatic approach, however, would focus on practices related to specific trade policies, industrial policies, and SOE issues in accordance with multilateral organizations, such as the WTO. However, it is evident that these multilateral frameworks and agreements, including the WTO and CPTPP, and this rule-based international approach will only work if the United States fully backs them.⁹⁸

Until now, as a regional power or an upper middle-power nation Japan has maintained its geo-economic power through its size and technological capability to engage with China. However, the next decades will be different as Japan’s relative decline in terms of economic presence is inevitable. As such, even though Tokyo shares a deep concern with Washington regarding China, it seems Tokyo’s policy goals are less ambitious in the short term than those of Washington. Tokyo’s priority has concerned the stabilization of the relationship with Beijing, as discussed.

It is important to note that Japanese citizens recognize the importance of China, although many have a generally negative image of the country. In 2019, a survey conducted by the Cabinet of Japan found approximately 80 percent of Japanese have an unfavorable perception of China.⁹⁹ However, the same survey asked, “Do you think that the future development of relations between Japan and China is important for both countries and for the Asia-Pacific region?” and found 75.1 percent of respondents considered it to be important (a combination of the 34.8 percent who responded that it was important and 40.3 percent that considered it to be fairly important).¹⁰⁰ Importantly, this survey was conducted the year after the start of major U.S.–China confrontation and preceded the Covid-19 pandemic. A paper published jointly by U.S. and Japanese experts refers to this as a dichotomy between the negative perception of China and

⁹⁶ See “Vice President Mike Pence's Remarks on the Administration's Policy Towards China” at the Hudson Institute HP, October 4, 2018. <https://www.hudson.org/events/1610-vice-president-mike-pence-s-remarks-on-the-administration-s-policy-towards-china102018>.

⁹⁷ Anonymous. 2021. “The Longer Telegram: Toward A New American China Strategy”, Atlantic Council Strategy Papers, January 2021. <https://www.atlanticcouncil.org/content-series/atlantic-council-strategy-paper-series/the-longer-telegram/>.

⁹⁸ There was a belief or expectation in Japan that the U.S. may return to the negotiation table for the TPP and take up the status of the agreement as it was in 2017. Nakagawa, Junji. 2017. “The Future of NAFTA Renegotiations: Aiming for the Real Revival of the TPP Japan-US FTA negotiations: Don't panic”, *Nihon Keizai Shimbun*, August 9, 2017. <https://www.nikkei.com/article/DGKKZO19778070Y7A800C1KE8000/>.

⁹⁹ “Public Opinion Poll on Diplomacy”, 2019, by the Cabinet Office. <https://survey.gov-online.go.jp/r01/r01-gaiko/2-1.html>.

¹⁰⁰ Ibid.



The Future of Japan-China Relations

perception of its importance.¹⁰¹ This is another aspect of the contemporary Japanese sense of China that should not be overlooked.

Objective-setting is also related to another important question: can we influence China's trajectory? As China's decision making is increasingly top-down, it is difficult to do so from the outside. At the same time, it is also reasonable to say that the China's current strategic trajectory and institutional settings may not maximize benefits in the mid- or long term for China's own national interest and its people's welfare.¹⁰² For instance, developing economies usually take advantage of technology and personnel inflows from foreign nations to increase their economic growth, which is often referred to as the "economy of backwardness" or "backwardness model." However, if decoupling in supply chains, research, and finance deepens, China will be unable to access these avenues for growth as it tries to rise beyond its middle-income status.

In the short term, it is also important to examine the outcomes of Abe's engagement with China in the 2010s. Clearly, this approach did not change China's interests or its trajectory. However, as China also started considering the quality of its infrastructure and repeatedly emphasizing the importance of multilateral frameworks such as the WTO, Japanese engagement did help to influence the ways that China's economic outreach is taking place by forcing its commitment to several conditions, standards, and dispute settlement mechanisms. Unfortunately, this tentative outcome is limited to economic aspects, and there has been no sign of adjustment in security fields.

However, less ambitious does not automatically imply less effective in terms of delivering benefits. Moreover, at least some of the hardline approaches taken by the Trump administration may have been counterproductive or may even have resulted in the opposite of the desired effect. For example, the Chinese government was able to easily justify massive policy interventions into the semiconductor industry as a response to U.S. policies.¹⁰³ On the contrary, Yuji Miyamoto, a former Japanese ambassador to China, has suggested a possible moderate approach to China: "China must change its direction in military, economic, and diplomatic affairs in order to be successful in the international community. Japan's role is important in creating an environment in which China can change direction without compromising its *mianzi*

¹⁰¹ Kawashima, Shin, Mataka Kamiya, and James Schoff. 2019. "Managing Risks and Opportunities for the U.S.-Japan Alliance Through Coordinated China Policy", Alliance Policy Coordination Brief, Carnegie Endowment for International Peace and the Japan Forum on International Relations, Inc.

<https://carnegieendowment.org/2019/10/10/managing-risks-and-opportunities-for-u.s.-japan-alliance-through-coordinated-china-policy-pub-80026>.

¹⁰² For example, following paper argues that the current institutional setting in China had contributed a rapid economic growth in the past, however, it is the second-best solution. Bai, Chong-En. Chang-Tai Hsieh, and Zheng Song. 2020. "Special deals with Chinese characteristics", *NBER Macroeconomics Annual*, 34(1), pp.341-379.

¹⁰³ *Reuters*, "China plans new policies to develop domestic semiconductor industry: Bloomberg", September 3, 2020. <https://www.reuters.com/article/us-china-semiconductors-usa-lawmaking/china-plans-new-policies-to-develop-domestic-semiconductor-industry-bloomberg-idUSKBN25U0VM>.



The Future of Japan-China Relations

(reputation).”¹⁰⁴ Although the author is sympathetic to the later approach, under the current political environment, there are no guaranteed outcomes to both a hardline approach and a soft-line approach as China today is a far larger and more powerful nation than it was in 1972 or even 2001. China is now capable of implementing a domestic-based economic policy, dual circulation.

Ultimately, domestic factors will fundamentally shape China in the mid- and long term. A critical issue is the impending demographic transition in China. The working-age population began to fall in 2010, and this trend is expected to accelerate in the 2020s.¹⁰⁵ This aging society will mean a smaller labor force, a lower savings rate, less innovative dynamics, and a larger social security burden. A series of demographic challenges may require China to take on a more inward-looking approach, compared to its current focus on active outward engagement with developing economies. Given the rapid pace of aging, Chinese policymakers are choosing to heavily invest in robotics and digital technology, which Professor Barry Naughton, a specialist on the Chinese economy, calls the grand steerage.¹⁰⁶ Professor Nobukatsu Kanehara, former Assistant Chief of the Cabinet Secretary in the second Abe administration, assumes that China’s aggressiveness will peak around 2030 and asks, “How can Japan maintain stability during this period? That will be Japan’s grand strategy.”¹⁰⁷ A different view has appeared in “The Longer Telegram,” as it notes a new China policy “must be long term, implemented over the next thirty years.”¹⁰⁸

There is also an urgent need to manage business uncertainty in U.S.–China confrontation over the short term. As both the United States and China have tightened export controls, the Japanese business association has written to the Minister of Economy, Trade, and Industry,

¹⁰⁴ *Nihon Keizai Shimbun*, “Yuji Miyamoto: “Japan’s Role is Important” in Avoiding Clashes between the U.S. and China”, March 17, 2021. <https://www.nikkei.com/article/DGXZQOJB062OZ0W1A300C2000000/>.

¹⁰⁵ Fang, Cai. 2016. *China’s economic growth prospects: From demographic dividend to reform dividend*. Edward Elgar Publishing. For more recent data and argument, including an issue of 14.9% decline in new birth in 2020, see Zhang, Jun. 2021. “China’s Accelerating Fertility Crisis”, Project Syndicate, March 23, 2021. <https://www.project-syndicate.org/commentary/china-fertility-rate-population-aging-two-child-policy-by-zhang-jun-2021-03>.

¹⁰⁶ Naughton, Barry. 2020. “Grand Steerage”, in Thomas Fingar and Jean Oi ed. *Fateful Decisions: Choices That Will Shape China’s Future*, Stanford University Press, pp. 51-81.

¹⁰⁷ “Just like the constellations, the relationship between countries seems to be unchanging, but it is changing day by day, and in ten years, the power relationship will change completely. Unfortunately, Japan will peak out just like the UK and France did in the past. I believe that China, with its current momentum, will also peak out at some point in the form of being overtaken by India. Until then, China will continue to act like a hegemonic power in Asia, and it will continue to be a nuisance for neighboring countries. How can Japan maintain stability during this period? That will be Japan’s grand strategy. The FOIP I mentioned earlier is a concept with this in mind.” See “Reflections on Japanese Diplomacy in the 75 Years Since World War II”, *Koken*, August 2020. <https://koken-publication.com/archives/691>.

¹⁰⁸ Anonymous. 2021, page 78.



The Future of Japan-China Relations

Hiroshi Kajiyama,¹⁰⁹ and to the Chinese government.¹¹⁰ A concern exists that Japanese business interests will be damaged due to sanctions by one of the two economic superpowers. Minister Kajiyama noted that “It is also important to ensure that you have the same competitive conditions as companies from other countries. There is no need to go beyond what is required under the export controls of each country, and there is no need to be overly defensive.”¹¹¹ With regard to tightening regulations such as export controls and financial regulations, a weak domestic consensus will be an issue for both Japan and the United States. According to a survey conducted by the Japan Center for Economic Research, Japanese businesspeople have a range of views on decoupling and cooperation with China (Figure 4 below).¹¹²

¹⁰⁹ “Request to METI: Extraterritorial Application of Regulations in China and the U.S. (Request)”, Nov 10th, 2020. https://www.cistec.or.jp/service/china_law/20201110.pdf.

¹¹⁰ Center for Information on Security Trade Controls (CISTEC) and Other Associations. 2020. “U.S.-Japan Joint Position Paper on the Second Draft of the Chinese Export Control Act”, Aug 11, 2020. https://www.cistec.or.jp/service/china_law/20201110-tenpu1.pdf. Center for Information on Security Trade Controls (CISTEC) and Other Associations. 2020. “Joint EU-Japan Position Paper on the Second Draft of the Chinese Export Control Act”, Aug 11, 2020. https://www.cistec.or.jp/service/china_law/20201110-tenpu2.pdf.

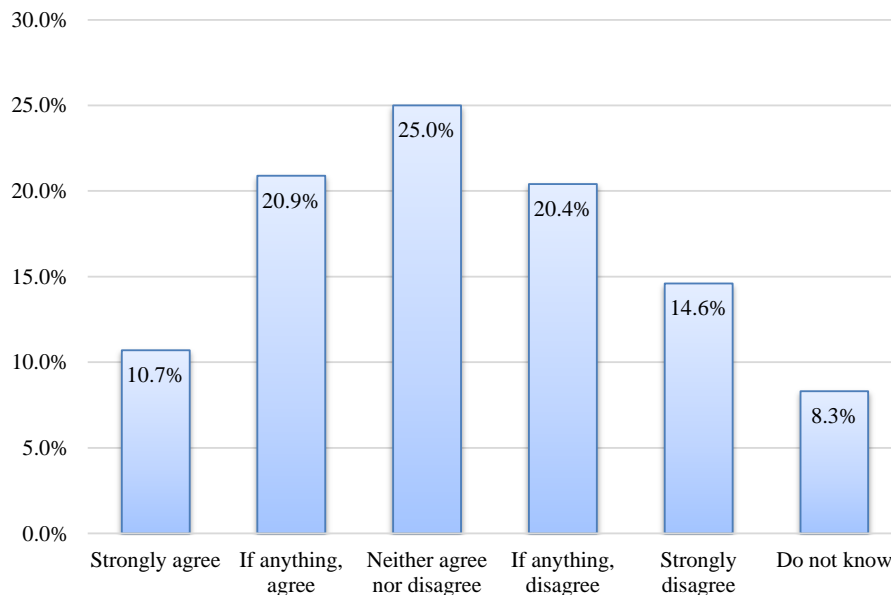
¹¹¹ METI. 2020. “Summary of the post-cabinet press conference by Minister Kajiyama”, Nov 17th, 2020. <https://www.meti.go.jp/speeches/kaiken/2020/20201117001.html>.

¹¹² The Survey is conducted by Japan Center for Economic Research (JCER) via online from July 14th to July 16, 2020 (which means after the Hong Kong National Security Law’s enforcement, and before the U.S. Secretary of State Mike Pompeo’s speech in July 23rd 2020). The number of observations were 3,000 who affiliated in listed Japanese companies, and age over 20. The survey is jointly designed with JCER, Prof. Shin Kawashima, Prof. Akio Takahara, Prof. Tomoo Marukawa, Prof. Yasuhiro Matsuda, Prof. Ryo Sahashi, and author. A part of results is appeared in *Nikkei Asian Review*, “Japanese business rethinks high-tech deals with China,” September 3, 2020. <https://asia.nikkei.com/Politics/International-relations/U.S.-China-tensions/Japanese-business-rethinks-high-tech-deals-with-China>.



The Future of Japan-China Relations

Figure 4. Diversified views on decoupling with China¹¹³



Note: Question is “If the U.S. government asks the Japanese government to implement a decoupling with China, do you think Japan should also cut off the flow of products, money, personnel and technology with China?” This survey was conducted between July 14 and July 16, 2020. Total sample size was 3,000.

Lastly, Japan and the United States need to respect the diverse views of other countries in the region. East Asian countries, such as South Korea and the member states of ASEAN also share similar opportunities and challenges with Japan. Obviously, Asia’s prosperity depended on the post-Cold War peaceful geopolitical environment and is now being seriously challenged by current strategic confrontation, as noted by Singapore Prime Minister Lee Hsien Loong in his article “The Endangered Asian Century”.¹¹⁴ In the aftermath of the Covid-19 pandemic, as well as in the age of Sustainable Development Goals, closer regional and global cooperation is of the utmost importance in steering recovery.

¹¹³ Source: Survey by Japan Center for Economic Research.

¹¹⁴ Lee, Hsien Loong. 2020. “The Endangered Asian Century: America, China, and the Perils of Confrontation”, *Foreign Affairs*, Vol.99 No.4, pp.52-64. It was just five years before this article that Prime Minister Lee stated “Speaking as an Asian country and a participant in both the AIIB and the TPP, Singapore hopes that eventually China will join the TPP, and the US and Japan will join the AIIB” in his keynote speech at the Shangri-La Dialogue in 2015. Both suggestions are not realized and even the United States has withdrawn from the TPP negotiation. Lee, Hsien Loong. 2015. “Transcript of Keynote Speech by Prime Minister Lee Hsien Loong at the Shangri-La Dialogue on 29 May 2015”, Prime Minister’s Office of Singapore, May 29, 2015, <https://www.pmo.gov.sg/Newsroom/transcript-keynote-speech-prime-minister-lee-hsien-loong-shangri-la-dialogue-29-may-2015>.



The Future of Japan-China Relations

Concluding Remarks

From an economic perspective, the dual nature of Japan's strategy towards China is a pragmatic consequence of regional realities in Asia. Since Japanese economic prosperity depends on a stable geopolitical environment and trade facilitation in Asia, Japan has advanced an engagement policy with China since the 1970s. Through the past four decades, China's rapid development has created a vast economic opportunity for Japan, but also has caused a rise in geopolitical tensions. Since the 2000s, Japanese enterprises have accumulated business capital as well as risk management capability, but the China Plus One strategy has limits as the gravitational pull of the Chinese economy is greater than ever. During the second Abe administration, the Japanese government advanced a dual strategy, namely hedging and cooperation with China during a moderate geopolitical environment. However, the risk of doing business with China is now transforming from a bilateral political risk to great-power competition risk.

After a half-century of post-war Japanese cooperation and engagement with China, the intensification of U.S.-China competition will test the robustness of the Japanese dual approach in the 2020s. Unlike the attitude of Prime Minister Yoshida in 1949, when he said, "it doesn't matter whether China is red or blue," today Japan cannot adopt such a view as China's geo-economic and geo-political influence are fundamentally different from the past. As such, U.S.-Japan coordination and multilateral frameworks to manage China's rise are particularly important as Japan's relative decline in economic presence is inevitable. Under a more centralized political regime in China, the CCP's market intervention and weaponization of economic interdependence are tangible risks for Japanese enterprises as well as western companies. Japan's active role in multilateralism and its dual approach towards China could take the edge off of strategic competition by providing rule-based engagement dimensions with China, though this approach alone does not guarantee the possible shift of China's trajectory especially in security fields. In this context, Japanese economic pragmatism, which has been prevalent since the 1950s, moderately contributes to regional stability and prosperity despite its own limitations.