

## 10. Nationalism, security, and prosperity: the three dimensions of Sino–Japan relations

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### INTRODUCTION

Japan's increasingly competitive and confrontational political relationship with China stands in stark contrast to the close and mutually beneficial economic partnership that has developed between the two countries over the last decade. Sino–Japanese relations are now often characterised in terms of 'hot' economic relations and 'cold' political relations, raising the question of how long can such a relationship last. In this chapter I argue that the outlook for China–Japan relations is not a positive one. The economic benefits of the current relationship, however, are extremely important to both countries, and are therefore likely to prevent the political relationship from deteriorating to the point where the economic relationship could be seriously damaged, excluding acts of gross provocation by either government or a third party such as North Korea, Taiwan, or the US.

This assessment is based on an analysis that sees both nations in competition for the attainment of three fundamental long-term policy goals: sustained economic growth, recognition as Asia's major regional power, and greater influence in global affairs. The 'cold' political relationship, therefore, is the result of both governments pursuing interests – such as energy security, greater political and economic influence, and the consolidation of strong, contemporary national identity – they currently deem as mutually incompatible. Furthermore, these interests are largely being shaped by concerns over future intentions and existing notions of national identity. In this chapter, the areas of concern fuelling the current 'hot–cold' dynamic are portrayed as the three key dimensions of the China–Japan relationship: nationalism, security, and economic interdependence and growth. The argument presented here stresses the importance of the interplay between each of these dimensions, and also the extent to which their inter related

nature will make any improvement in political relations elusive at best, and unlikely at worst.

In the chapter I also contend that Japan has remained locked within a post-war foreign relations paradigm that, in addition to contributing to the current state of Sino–Japanese relations, has left Japan unable to adjust to the current challenges it faces, particularly from China. Japan’s role in regional and world affairs is being shaped by its relationship with China, and this relationship will help to define Japan’s role and identity in Asia, its willingness and ability to become a more equal partner in the US–Japan alliance, and also, therefore, Japan’s broader identity in the international community as a truly independent state. Japan’s leaders are encouraging the perception that Japan is now taking a far more assertive and proactive role in foreign affairs, but they are unable to do so convincingly, I argue, due to the Japanese government’s ongoing adherence to a foreign policy model adopted more than 50 years ago for Japan’s post-war reconstruction: the Yoshida doctrine.<sup>1</sup>

As a result, Japan has remained focused on exploiting economic opportunities while paying little attention to the development of political relations. This approach was reflected in the Koizumi government’s poor relations with China, and also its failure to resolve the legacies of World War II and its military past. The Japanese government’s identification of the People’s Republic of China (PRC), together with North Korea, as potential national security threats in its December 2004 National Defense Program Outline (NDPO) underlines the increasingly problematic and tense nature of Sino–Japan relations. This uncharacteristically clear statement by the Japanese government of how, in security terms at least, it currently perceives the PRC is a strong indicator of not only how much relations between the two countries have changed over the last decade, but also the extent to which Japan’s leaders are encouraging the perception that Japan is now taking a far more assertive and proactive role in its foreign affairs. Indeed, four major international developments over the last 15 years have forced the Japanese government to reassess its pursuit of two primary foreign policy objectives: a) maintaining a leadership role in the Asia region; and b) becoming internationally recognised as an independent and equal, rather than junior and subservient, partner in its alliance with the US:

1. The ending of the Cold War, particularly its impact upon Japan’s strategic role in Northeast Asia;
2. China’s continuing economic development and ascendancy as a competitor for Japan’s role as Asia’s most powerful economic and political actor;
3. Japan’s prolonged economic downturn in the post-bubble era; and

4. Changes in US' security priorities and strategies resulting from its prosecution of the 'War on Terror'.

China, with its growing status as an economic powerhouse, is a key factor in how each of these developments has, and is likely to, affect Japan and its interests and ambitions as a regional and global actor. China's rapid implementation of a market-based economy and ongoing high levels of growth have effectively ushered in a new era of China–Japan relations characterised by *conflict* and *convergence*, as characterised by the existing hot–cold dichotomy, as both nations pursue fundamentally similar long-term policy objectives: sustained economic growth, recognition as Asia's major regional power, and greater influence in global affairs. Japan's role in both regional and world affairs will largely be shaped by the kind of relationship it develops with China, as this relationship will help to define Japan's role and identity in Asia, its willingness and ability to become a more equal partner in the US–Japan alliance and also, therefore, Japan's broader identity in the international community as a politically dependent or independent state.

Hopes for reconciliation and improved future relations between the two Asian powers were boosted in October 2005 with Shinzo Abe's decision to meet with Presidents Hu Jintao of China and Roh Moo Hyun of South Korea only a week after being appointed as Koizumi's successor. By choosing to visit the leaders of Japan's two biggest regional critics so soon after becoming Prime Minister, Abe clearly signalled the importance of Japan's relations with China and South Korea and also the intention to move quickly on the development of better relations between Japan and its neighbours by signalling the desirability of future reciprocal visits. Optimism for any easing of tensions under Abe, however, need to be tempered both by the Japanese leader's ambiguous position on visits to Yasukuni Shrine (Abe avoided commenting on whether he will visit the controversial Shinto Shrine), and his reputation as a strong Japanese nationalist under mounting political pressure at home to maintain a strong stand against continued external criticism of Japan's ambivalence over its role and actions during World War II. And although Abe and Hu agreed on some initial measures to address existing sources of tension, such as setting up a bilateral panel on the history controversy and talks on the joint exploration of natural gas resources in the East China Sea, the likelihood of these measures producing any long-term improvement in relations is far from clear.

Rather ironically, a stable and cooperative relationship between Japan and China would probably lead to Japan playing a much more independent role in international affairs and far less dependency on the US alliance for its security, which are precisely the kinds of changes many Japanese nationalists are calling for in their bid to see Japan become a so-called 'normal country'.

Such a scenario, however, is improbable in the short to medium-term, and would require, at the very least, a major shift on a number of policy issues by the Japanese and Chinese governments, including the demarcation of their Exclusive Economic Zones (EEZ), a resolution of the history and textbook dispute, and a cooperative rather than competitive approach to both securing access to regional energy resources and establishing their respective roles in the Asia region. Given that Japan's still mostly reactive and US-dependent approach to foreign policy will remain – particularly in light of North Korea's nuclear test in late 2006 – in spite of the Japanese government's more assertive posturing and the low probability of any political concessions coming from Beijing, the issues driving the current tensions in the relationship will remain over the next few years at least. As Calder argues:

[Japan's] institutional constraints . . . suggest that it would be difficult for Japan to transcend its recent tradition of being a reactive state, even if it wanted to do so. To be sure, nationalist sentiments, rising foreign investment stakes, an increasingly fluid regional environment, and the recent domestic pressures on national leadership all militate in the direction of greater activism. Yet these pressures need considerable momentum to overcome prevailing domestic structural constraints.<sup>2</sup>

Thus, while the convergent nature of the current mutually beneficial economic relationship is very likely to compel both governments to limit the scope and impact of any political disagreements in the short term (3–4 years) – that is at least until the Chinese Communist Party (CCP) has enjoyed the benefits of hosting a trouble-free summer Olympics in 2008 and World Expo in 2010 – there is little to suggest that either China or Japan will offer any concessions that could significantly improve their political relationship. This position is qualified by the further observation that each government's current perceptions of the other's eventual objectives, in addition to the extent to which both governments continue to encourage and exploit antagonistic nationalist sentiment, will play a major role in the current and future development of Sino–Japan relations. Guesses about the future are, in effect, playing a key role in the shaping of policy in the present. The question is whether the current 'hot–cold' relationship can, at the least, be maintained.

## THE HOT–COLD DYNAMIC

At the current time, the nature of the existing China–Japan relationship and its likely future course are made enigmatic by the cold politics (conflict)–hot economy (convergence) dialectic that is continuing to develop between the two countries. On the one hand, both Japan and China benefit greatly

from the high levels of trade and investment that have developed between the two countries over the last two decades.<sup>3</sup> On the other hand, however, increasing economic cooperation and integration have occurred in tandem with growing levels of political discord and animosity between the two governments over a broad range of problems including, most significantly, increasing nationalism on both sides and mutual suspicion over each country's longer-term intentions.

Many, though not all, Japanese see China's military build-up and increasing economic strength as a clear threat to Japan's security. The Japanese media regularly advocates the need for a more proactive and independent Japan in response to the looming China threat (see Eric Johnston in Chapter 7), a view supported by 'neo-nationalist' politicians such as popular Tokyo governor Shintaro Ishihara. Negative perceptions of China, in addition to the North Korean nuclear threat, have added fuel to Japanese nationalism and also growing support for a more capable Japanese military and revisions to Japan's so-called 'Peace Constitution'. Meanwhile, many of the 300 million or so Chinese making up the country's 'nouveau wealthy' are riding their own tide of state-encouraged nationalism and, not surprisingly, view the prospect of a militarily resurgent Japan as a major threat to their own vision of a strong and prosperous China.

Heightened political tensions undoubtedly will handicap further economic cooperation between the two countries and possibly erode what so far has been achieved; according to some observers this is already beginning to occur. However, economic growth will remain the primary concern of both governments for some time to come – continuing growth in the case of China and sustainable recovery in the case of Japan – and it is unlikely, therefore, that either government would not act to prevent the political relationship deteriorating to the point where economic growth could be compromised. That said, the situation is extremely complex and finely balanced upon a number of important variables and potential scenarios that could lead to a rapid escalation of tensions or possibly even open conflict. Taiwan represents the catalyst for the worst-case scenario in terms of a conflict capable of seriously destabilising the region, and it will remain a long-term source of ongoing tension; other, lower level, conflicts could result from repeated incursions into Japanese waters by Chinese military vessels/aircraft, or confrontation over one of the existing territorial disputes.

Opinions on China's intentions, how it intends to go about realising them, and the impact China will have on regional security are numerous and diverse. But two distinct themes can be broadly identified within the burgeoning body of commentaries and observations on China's future course:

1. a China committed to economic development first and foremost and therefore keen to integrate further with the region through increasing bilateral and multilateral engagement (as per China's so-called 'peaceful rise'); or
2. a China, as seen through a 'realist' lens, that will seek to 'maximise the power gap between itself and its neighbours', thereby making it only a matter of time before conflict erupts between China and the US.<sup>4</sup>

Such a conflict would most likely involve Japan, given the current nature of the US–Japan alliance. It would also place the Japanese government in the very difficult position, depending on the circumstances of the conflict, of choosing to continue its current 'hedging' approach<sup>5</sup> to foreign policy and security issues, thereby incurring Washington's wrath, or the alternative of 'coming out of the closet' and committing itself as a fully-fledged security partner with the US. Either choice would pose serious problems and costs for the Japanese government, both internally and externally, creating a foreign policy crisis for Japan's leaders that would, one way or the other, fundamentally change both Japan's identity and relations in the region.

## THE FIRST DIMENSION: NATIONALISM

A December 2004 article in the *People's Daily*, after describing anti-Japanese sentiment in China as 'soaring', stated that: 'The coldness of the China–Japan political relations throws to the wind many major economic exchange projects.'<sup>6</sup> The article, published shortly after the Japanese government's naming of China as a security concern in its 2004 NDPO release, emphasised that bilateral trade growth between Japan and China was 'slowing down' and being overtaken by China's trade with firstly the EU and then the US, before then observing that 'China's trade reliance on Japan is diminishing'.<sup>7</sup> Other examples of Japan's negative image cited by the report were the declining popularity of Japanese companies among Chinese workers and Beijing's indecision over Japan's involvement in China's Beijing–Shanghai railway.

In spite of the obvious importance of Japan and China's growing trade and investment links, both sides appear willing to antagonise each other and risk undermining their existing and future economic opportunities. Rising anti-Japanese sentiment in China – as demonstrated by recent opinion polls, the widespread anti-Japanese inspired violence during the 2004 Asia Cup football final between China and Japan in Beijing, and an attack on the Japanese ambassador's residence by rioters in early April 2005 – is now

threatening to erode Sino–Japan economic relations. A key factor in the ongoing deterioration of relations has been the increasingly nationalistic complexion of Japanese foreign policy, which is largely the product of a failure by successive Japanese governments to move beyond both the nation’s wartime legacies and a post-war foreign policy doctrine made redundant by the post-Cold War world.

### **Nationalist Sentiment in China and Japan: the Politics of Pride**

A strong sense of national pride and growing indignation that their respective nations are not getting the respect they deserve are common among both Chinese and Japanese people, and play a large part in the current pattern of blame-laying and accusations between the two countries. Chinese nationalism has been widely explained as the country’s new ‘ism’ – a substitute ideology for the fading relevance of Marxist–Leninism in the new China – replacing past socialist ideals as the fabric binding together a huge and diverse population. One recent study, however, argues that Chinese nationalism, rather than being simply a state-imposed phenomenon, has a level of grass roots support that the CCP now often struggles to control,<sup>8</sup> making its exploitation for political ends a dangerous variable in the China–Japan equation.

In Japan, a weariness with apologising for past aggression, a growing conviction that Japan’s intentions in Asia during the first half of the last century were misunderstood, and increasing public support for a more independent and assertive role in international affairs have combined to produce a domestic environment where the government is loath to be seen as kowtowing or giving in to Chinese demands. The popularity of controversial Governor Ishihara, who has been particularly strident in his nationalist posturing and criticisms of China, appears to reflect a less conciliatory Japan where many people expect a government that *can* say ‘No’.<sup>9</sup>

But, in spite of the problems nationalist fervour has already caused, both governments appear to be encouraging citizens to ‘wave the flag’ as a foil to economic and political problems at home, and, in China’s case, a way of gaining regional political advantage. The PRC’s impressive economic development is beset with high unemployment and an increasingly uneven distribution of wealth, while Japan’s once economically secure voters have struggled under deflation and a government unable (or unwilling) to implement meaningful economic reform. The CCP, in spite of the risks to its relations with Japan, has stepped up its criticisms of Japanese nationalism and militarism, in response to what some observers argue is the increasing influence of conservative, anti-China voices in Japan’s government.<sup>10</sup> Japanese conservatives and large sections of the media, not surprisingly,

respond by painting the Chinese protestations as thinly disguised attempts to wring further concessions out of Tokyo and encourage regional opposition to a more independent and militarily active Japan. What should be of concern to Japanese proponents of this view, however, is that Japan's handling of the history issue, in particular Prime Minister Koizumi's highly controversial annual visits to the Yasukuni Shrine, is having repercussions beyond China. Japan's relations with South Korea have also worsened again in recent times with memories of Japan and South Korea's cooperation on jointly hosting the 2002 World Cup now being very much in the past. South Korea's government and media also attacked Japan's 2005 round of textbook approvals, with one newspaper, in clear reference to Japan's regional and Security Council aspirations at the time, writing: 'It is rash for Japan to try to play a leading role in international society when it feels no regret over its recent history.'<sup>11</sup>

Japan's bid for a permanent UN Security Council seat under Kofi Annan's now defunct plans to expand the number of permanent seats clearly suffered as a direct result of rising levels of anti-Japanese sentiment in Northeast Asia. Amid various indications of its opposition to Japan joining the Security Council, the Chinese government instead announced its backing of India, a country China long has regarded as a security threat, for one of the new seats. With China and the two Koreas united in opposing Japan's bid and each citing Japan's treatment of the history issue as the basis of their opposition, the impact of Japan's ongoing inflexibility over its military past on its foreign policy goals and identity is now more obvious than ever.

For Japan's leaders, the political benefits of gaining a Security Council seat are hard to overstate, as it would provide Japan with the international recognition successive Japanese governments have coveted while also taking some pressure off the government over the still uncertain future of the Japanese economy. Current indications, however, are that without a major Japanese policy change on the history problem, which is little more than a remote possibility, China will continue using its veto power in the Security Council to scuttle Japan's hopes for a permanent seat in the UN's most powerful body.

### **Japanese Nationalism and Foreign Policy in a Post-Cold War World**

Since the ending of the Cold War, which happened to preface the beginning of Japan's economic doldrums, Japanese expectations of playing a leading role in world affairs and putting to rest the stigma of wartime excesses have been replaced by a growing sense of isolation and irrelevance. As Yoichi Funabashi, the *Asahi Shinbun's* chief diplomatic correspondent, observed in late 1998:

Japan is in a deep funk. Its economic debilitation, political gridlock, and rapidly aging population all contribute to a pervasive pessimism and imperil its cherished identity as a nonnuclear, non-weapon-exporting, economically dynamic, democratic, generous, civilian power . . . People genuinely fear the future. Political leaders have consistently failed to lead and the economy has deteriorated for seven years.<sup>12</sup>

Nearly a decade later, Funabashi's comments appear equally relevant. Change does not come easily to Japan and almost always only occurs as the result of external pressure. Under the leadership of the conservative LDP, which has led Japan for practically the entire post-war period, Japanese policy making has been unable to break away from a foreign policy model built around Japan's huge strategic importance to the US during the Cold War and the need to do little more in its international relations than follow Washington's lead. Indeed, the absence of any regional competitor and the freedom to concentrate almost exclusively on further economic expansion and growth have effectively limited the political and strategic scope of Japanese foreign policy making.

The Koizumi government approach, like those of its predecessors, was little altered from the Yoshida doctrine foreign policy model that directed Japan's post-war reconstruction. Its longevity as the basis for Japanese foreign policy, however, has left the country's leaders ill-prepared for the challenges Japan currently faces. Thus, while the Koizumi government appeared to be taking a more assertive and proactive approach to its foreign relations, its attempts were hamstrung by a mostly unchanged foreign policy approach that remains both tied to US interests and constrained by right-wing nationalist thinking. And the indications are that Abe's foreign policy choices will be limited in much the same way since both these influences appear to be strengthening rather than weakening. Edstrom, writing in 2004, noted that:

Japan's domestic political upheaval and the economic problems that have plagued the country during the 1990s seem to have made its political leadership inward looking. The 'great-power bias' – the disproportionate attention to the great powers that has been part of Japan's foreign policy ever since the Meiji era – has not only continued but has been sharpened. . . Increasing myopia seems a perfectly rational reaction for a country having a security treaty with the remaining super-power.<sup>13</sup>

Put simply, the world has changed and Japan's leaders appear unsure of what to do about it. This explains, in addition to the LDP's limited ability to implement much needed reforms at home, the Japanese government's failure to define its priorities and national interests in any clear and meaningful way.<sup>14</sup> Thus, Japan remains unable to move beyond past issues and problems

that are complicating its relations today, such as the history problem, the Northern Territories issue, and its dependence on the US alliance for its security. The LDP's continued ad hoc approach to these issues has largely contributed to Japan's isolation and helped fuel the kind of nationalist sentiment that has made leaders like Ishihara popular.

Closely tied to the nationalism conundrum in Sino–Japan affairs is the relationship's other major source of friction: China and Japan's plans for ongoing military expansion and the mutual threat perception this is engendering. As already noted, Japan's militarist past figures prominently in the tit-for-tat exchanges between Beijing and Tokyo, and so it comes as no surprise that Japan's plans for a more active and independent military role in the region (and beyond), announced in the 2004 NDPO, came under heavy Chinese fire. This clear raising of the ante between the two governments has increased the chances of China and Japan entering a vicious cycle of animosity and suspicion that could, if left unchecked, have far-ranging consequences beyond solely the state of Sino–Japan relations. The key security concern for China is undoubtedly the still significant US presence in Northeast Asia and the Bush administration's clear goal of ensuring the US remains the region's unrivalled military power. As the major US ally in the region, Japan therefore figures prominently in the CCP's security calculations vis-à-vis its junior partnership in the US–Japan security alliance.

The US–Japan alliance is a quandary for both China and Japan in that it offers pluses and minuses for both countries. In China's case, it is clear that the CCP would prefer a far smaller US presence in Asia. The US remains China's only significant military threat in the region, and is of particular concern to China and its plans for returning Taiwan to mainland control. Only Japan has the capability to also threaten China's regional military dominance, and it is Japan's potential role and capabilities as a more independent player in the region's security environment that further complicates the issue of the US–Japan alliance for China.

## THE SECOND DIMENSION: SECURITY PERCEPTIONS

The most obvious security threat in Northeast Asia at the moment is the North Korean government's long-range missile capability and development of nuclear weapons. But a less overt and potentially far more dangerous threat to the region's stability is developing as a consequence of Japan and China's escalating political tensions. These tensions are underlining both the problematic nature of Japan's security alliance with the US, and also Chinese perceptions that Japan and the US each regard China as the major threat to US–Japanese security interests in the Asia–Pacific. The US–Japan alliance

will remain the lynchpin for regional security in the short term, but Japan will struggle to reconcile its own ambitions within the current conditions of the alliance and will most likely need to reconsider the US-dependent role it currently maintains.

The possibility of Taiwan's independence supporters sparking a Chinese response that could turn existing regional tensions into open conflict remains the Asia-Pacific's most serious threat. But growing competition between China and Japan over access to energy supplies in the region, in addition to their related EEZ disputes, is now providing additional scenarios capable of igniting military conflict. However, in the absence of any blatant acts of provocation, military, rather than political, responses to energy and territorial disputes are not likely given the economic relationship between China and Japan and their respective economic and political circumstances. China's increasing power and influence in the Asia-Pacific region is pressuring Japan to take a more assertive foreign policy role. But, as I argued in the preceding section, Japan's leaders remain locked within the same foreign policy paradigm that has shaped and characterised Japanese foreign policy for the last 50 years, thereby leaving the Japanese government looking constrained and inflexible in its responses to the challenges posed by China.

### **The US–Japan Alliance**

The major factor in the security equation for both countries is the US–Japan security alliance, which has remained at the core of Northeast Asian security since its inception in 1960. China views the alliance as a major security concern, and has repeatedly stated that it regards itself, and the threat of a PRC attack on an errant Taiwan, as the rationale for the alliance's continued existence and expansion in the post-Cold War period. China's status as a threat to US interests continues to be reinforced by neo-conservative policy advisors and commentators in the US<sup>15</sup> and, more recently, by Washington's strong opposition to the EU's decision to lift a 15-year-old embargo on arms exports to the PRC.<sup>16</sup> For Japan, the alliance is the major pillar of its national security and political relationship with Washington; it is also, in its current form, an obstacle to Japan's aspirations for a more independent regional and global identity.

The enlargement of Japan's military activities and responsibilities (for example, peacekeeping in Cambodia and more recently a support role in Afghanistan and Iraq) – beyond the hitherto strictly adhered to limit of only defending Japanese territory as per Article 9 of the Japanese Constitution and the original alliance provisions – has to date only prompted sustained criticism from the PRC. Other governments in the region, comforted in part by the fact that Japan's expanding military role in and beyond the region is

occurring with the approval and encouragement of the US, are yet to voice any real concern over these developments. And while there remains some disquiet in Japan over how far its military responsibilities and capabilities are likely to be expanded, support for former Prime Minister Junichiro Koizumi's plans to amend the Constitution, in particular Article 9, in order to 'normalise' Japan's military has grown significantly in recent years.

Any move to weaken the Constitution's strict limits on Japan's military capability and role would have been unthinkable during the Cold War. Under the Soviet threat, Japan already was an indispensable part of the US security framework and was also achieving growing international recognition and influence through its remarkable economic achievements under the alliance as per the Yoshida doctrine. Thus, by the late 1980s, Japan had again claimed a place for itself on the world stage as a major player. But the 1990s provided a number of major set-backs to Japan further establishing itself as a responsible and influential actor in world affairs, events that would create new challenges for Japan's aspirations as a global power and also its security relationship with the US.

Perceptions within Japan that it was losing influence and significance began to appear after the ending of the Cold War and the corresponding decline in Japan's strategic significance as the 'unsinkable aircraft carrier' anchoring US security plans in the region. Concern among Japanese policy makers over the perceived decline in Japan's geo-strategic importance was then accentuated during the early 1990s by several important events, including: the bursting of Japan's economic bubble and the nation's ensuing economic decline; strong criticism from the US over Tokyo's 'cash only' commitment to the first Iraq war coupled with occasional signs from Washington that Japan was being marginalised as US interest in a reforming and economically dynamic China grew; the government's failure to gain international leverage for its attempts to elicit a negotiated settlement from Russia over the Northern Territories issue; and, most troubling of all, China's rapid political and economic ascendancy to a position where it could now compete for Japan's role as Asia's richest and most influential nation.

By the turn of the century, with Japan feeling isolated and lacking in confidence, Japan's ongoing image as a junior partner in its security alliance with the US, and generally unquestioning supporter of US foreign policy, rankled among Japanese policy makers and the general public. Ill-feeling among many Japanese over domestic incidents involving US service personnel and long-held grievances, particularly in Okinawa, over the maintenance of US bases in Japan and the Status of Forces Agreement has for some time caused many Japanese to express strong dissatisfaction over the current alliance arrangements. But with public pressure for Japan to assert a more independent identity and a mounting wariness of the Bush

administration's uncompromising approach to foreign policy now adding to Japan's already existing alliance anxieties, the long-term future of the Japan-US alliance, in its current form at least, should no longer be taken for granted. And while there is nothing to indicate that the alliance could be seriously compromised any time soon, there are indications that Japan's own political circumstances and interests may soon come into conflict with the US government's hard-line approach to what is expected from its alliance partners.<sup>17</sup>

Mulgan, for example, has cited several areas where she sees 'intimations of a clear divergence between Japanese and US interests and approaches'.<sup>18</sup> These include the current US practice of 'downgrading alliances in favour of "coalitions of the willing"', Japanese concerns that normalisation of the self-defence forces will lead Japan into conflicts under the alliance that 'are incompatible with their own security and foreign policy interests' (for example, Taiwan), and the fundamentally different positions taken by the Japanese and US governments on the need for multilateral organisations and international cooperation in maintaining international security.<sup>19</sup> Nakai goes even further when, in the course of describing the three dominant Japanese perspectives on Sino-Japanese relations, he observes that one of the mainstream views in Japan holds that 'it is the U.S., not China, that poses a greater threat'.<sup>20</sup> This perspective, which has common ground with the so-called and broadly supported 'internationalist school'<sup>21</sup> within Japan's defence policy debate, argues that the Bush administration's willingness to pursue unilateral action at the expense of regional stability is a danger to Japan's own interests. Furthermore, the current US tactic of disregarding existing security frameworks for more flexible 'coalitions of the willing' could lead to Japan becoming a bystander in regional security, particularly in the event of a Sino-US strategic alliance taking shape under a new or expanded coalition.<sup>22</sup>

The dynamics and potential outcomes of the US-Japan alliance are at least as vexing for China's own security concerns and aspirations. The alliance itself is, as already noted, China's clearest and most serious security concern, particularly in the context of China's ongoing plans to one day reunify Taiwan with the mainland. Therefore, on one level, Chinese strategists would prefer either a weaker alliance or no alliance, as US power in Asia would be less formidable without it. On another level, however, China – like South Korea and to a lesser degree the ASEAN nations – also sees Japan's dependence on the US for its security as protection against a remilitarised Japan,<sup>23</sup> which would pose a much more immediate and direct threat to China's interests. As Brzezinski notes, in responding to 'realist' claims of an inevitable future conflict between the US and China, 'Frankly, I doubt that China could push the US out of Asia. But even if it could, I don't

think it would want to live with the consequences: a powerful, nationalistic, and nuclear-armed Japan.'<sup>24</sup>

On yet another, more regional-focused, level, a more independent Japan could also be seen as an opportunity for China to undermine US power and influence in the region and forge closer ties with Japan, but preferably with Japan as a junior partner in a China-led regional economic community.<sup>25</sup> This view, however, is somewhat optimistic and lacks any clear basis for why Japan would not just as likely remain a competitor getting in the way of Beijing's plans. Indeed, there is something of a 'catch-22' quality to China's position and options in regard to the alliance. While the view among some Chinese analysts that the alliance is 'keeping the genie in the bottle' appears to reflect China's current position and attitudes towards Japan and the alliance in general, even this seemingly straightforward perspective is more complicated than it first appears. Jiang points out that in the current alliance, China is the 'imagined enemy', which, like North Korea, gives Japan seemingly good reason to build up its military. Thus,

Chinese analysts . . . seem to be in a dilemma. On the one hand, they would like to see U.S. protection of Japan continue so that the latter will not feel compelled to rapidly build up its own military. On the other hand, they believe China is now being targeted and Japan's military role is expanding anyway.<sup>26</sup>

Japanese and Chinese perceptions of the US–Japan alliance, then, are focused on many of the same issues but raise quite different problems. The US, for its part, needs to be mindful of these concerns if it is to maintain the alliance in a way that neither threatens China, or its neighbours, with the prospect of a militarily resurgent Japan with Beijing in its cross-hairs, nor gives support to the increasingly popular view in Japan that the alliance ties Japan too closely to US adventurism, making it vulnerable to consequences and costs that are not of Japan's own making. Stable relations between these three countries clearly are crucial for both regional and global stability, particularly at a time when the US is risking military and economic overstretch. And, at the moment, in spite of its flaws and complications, the current status quo, with the alliance at its centre, is the best short-term protection against any direct conflict between Japan and China.

### **Energy Security**

Perhaps the biggest challenge, and most likely source of further political tension, for both China and Japan is gaining access to reliable oil and gas supplies. Neither country is endowed with adequate energy resources, making both economies heavily reliant on external sources. Securing and maintaining a secure supply of energy imports, therefore, is absolutely

essential for both countries to continue developing their respective economic and national security interests. Indeed, building and maintaining economic momentum is critical for both governments if they are, at the very least, to avoid domestic instability, let alone compete against each other for greater recognition and influence.

Japan, for example, has already demonstrated its intention to try and juggle its alliance responsibilities with the US and its own energy priorities by adopting a strategy of 'double hedging' with its economic and military security interests. As Heginbotham and Samuels have argued, Japan is extremely unlikely to subordinate its economic interests to its security obligations with the US, which is consistent with the concerns among many Japanese policy makers and analysts over the potential costs of not establishing a more politically independent relationship with the US.<sup>27</sup> Following Koizumi's commitment of Japanese military resources to Afghanistan and Iraq, the first time Japanese forces had been deployed overseas without UN approval since World War II, the Japanese Premier's plans initially ran into trouble within the LDP General Council due to fears the deployment would compromise Japan's Middle-East relations. Protecting Japan's carefully cultivated relationship with Iran, where Japanese investment secured access to Iranian oil during the military actions in Afghanistan and Iraq, was a particular priority for LDP heavyweights such as Hiromu Nonaka, Taku Yamazaki, and former Prime Minister Ryutaro Hashimoto. As a result, the Japanese contribution to the US-led effort was scaled back and delayed sufficiently to avoid negating Japan's 'pacifist' image, and provide time for reassuring its Middle-East partners over the nature of Japan's military involvement. Yasuhiro Nakasone, a former Prime Minister and a staunch supporter of the US–Japan alliance, echoed the Liberal Democratic Party's strategy of balancing Japan's economic interests with its obligations to the US by stating that 'any globally minded politician worth his salt should be exploring measures that would please the Arab world and bring honour to Japan at the same time'.<sup>28</sup> The growing influence of this perspective within Japan should not be ignored and is clearly demonstrated by Japan's carefully managed support for George W. Bush's recent military interventions and confrontational foreign policies.

Indeed, domestic pressure for a more independent Japanese foreign policy is set to increase after Japanese energy exploration company Inpex Holdings had its 75 per cent stake in Iran's Azadegan oil development project slashed to 10 per cent by the Iranian government in October 2006. This is a major set-back for Japan's own energy interests – with an estimated 26 billion barrels of oil, Azadegan is one of the world's largest oil fields – and comes in spite of Tokyo's efforts to hedge its energy investment strategy in Iran against US pressure for sanctions against Iran over that country's nuclear

programme. Inpex is majority-owned by the Japanese government and its withdrawal has opened the way, much to Tokyo's annoyance no doubt, for Chinese and Russian investment in the project. Iranian authorities had been complaining about drilling delays, attributed by Inpex to safety concerns over uncleared landmines, before finally running out of patience with Japan prolonging negotiations over a commencement date. A more likely reason for Inpex's delays, however, was the mounting US pressure on Japan to actively support the Bush Administration's calls for sanctions against Iran over its refusal to abandon its nuclear ambitions. Japan, it appears, was hoping the sanctions issue could be resolved before going ahead with the project, thereby securing its energy interests without contradicting US demands for sanctions against Tehran.

Japan also has been actively pursuing secure energy supplies closer to home, which has of course brought it into direct competition with China's burgeoning energy needs. The biggest issue for both countries in their quest for secure energy reserves in recent times has been their joint pursuit of Russia's huge oil reserves. Russia, now the world's second largest oil exporter after Saudi Arabia, is rapidly expanding its oil and gas industries, and is well placed to provide both the Japanese and Chinese governments with the security they are seeking for their energy supplies. Late in 2004, Russian officials dealt a serious blow to Chinese hopes by appearing to opt for the longer, and far more expensive, oil pipeline route proposed by Japan, which would allow Russia to sell its Siberian oil to not only Japan, but also South Korea and possibly the US. Following its losses on a gas pipeline built to Turkey – where the Turkish government, according to Russian officials, reneged on earlier agreements over price and volume – the Russian government is no doubt wary of again committing itself to one customer, as would be the case with the Chinese pipeline proposal.<sup>29</sup> Moreover, Japan's offer to fully fund the Pacific pipeline route, coupled with a general belief that Japan is a more 'predictable' country to do business with,<sup>30</sup> initially looked to be enough added incentive to snatch the deal away from the Chinese who, after a decade of negotiations with Moscow, had believed the project was all but theirs up until late 2004.

By late 2006, however, the Russian government had changed course on the pipeline's eventual destination(s) numerous times, leaving the Chinese and Japanese governments largely clueless over whether only one or both countries could count on an east Siberian oil supply, or who will gain access first. Currently, the situation remains very unclear with numerous conflicting media reports on the pipeline's final course appearing throughout 2006; indeed, for its part the Russian government seems content to keep the Chinese and Japanese guessing for the time being. Transneft, the Russian state pipeline company, is currently working on the first stage of the pipeline

(completion estimated in late 2008), but no timetable has yet been set for the all important second stage beyond Skovorodino where stage one will end. Japan's earlier offer to sign an intergovernmental agreement that would see Japanese funding pay for the entire route to the Pacific was at first welcomed by Moscow, but now even that seems to have lost its attraction with the Russian government saying its current priority is to develop the still untapped reserves in eastern Siberia that the pipeline is intended to carry.<sup>31</sup> In an October 2006 report, Japanese journalist Hisane Masaki wrote that,

Japan and China have lobbied for alternative routes for a pipeline from eastern Siberia's oilfields to Pacific Rim nations. Russia has played the two energy-hungry Asian nations against each other. Japan failed to gain a guarantee that Russia will give priority to building a 'Pacific Route' from Taishet near Lake Baikal to Perevoznaya Bay near Nakhodka on Russia's Pacific coast via the halfway point at Skovorodino, near the Russia-China border, rather than to building a 'China route' heading to Daqing, northeastern China, from Skovorodino.<sup>32</sup>

China's government, however, also has been developing other options for its growing energy needs. In addition to alternative pipelines from other neighbouring countries like Kazakhstan and gas development projects in Turkmenistan, China is casting its net for energy resources much further afield. Like Japan, China has signed deals for Iranian oil. But, like India, the world's other new economic player, China is now moving to do business with lesser-known suppliers such as Sudan and Myanmar in spite of the political problems of doing business with 'pariah' states. By diversifying in this way, China is hedging its own bets over future energy supplies. China's energy demands will soon see it overtake Japan as the world's second largest oil consumer after the US – a very clear indicator of the economic activity the CCP has so far engendered and also the significance of China's energy needs for its future growth. But reliance on oil and gas from distant suppliers, as recent events in the Middle East have demonstrated, will put China's economy more at the mercy of events beyond the CCP's control while also exposing it to shipping risks and the possibility of blockades.

Japan's access to regional supplies like the huge Sakhalin-2 oil and gas reserves project – being developed jointly by Shell, Mitsui and Mitsubishi in the Sakhalin-22 – provides greater security and has given the Japanese an advantage in terms of vulnerability to energy shortages, particularly at a time when Japan's energy needs are decreasing relative to China's. Japanese advantage in this regard, however, has again been jeopardised by both its failure to manage its World War II legacies and also the assertive way in which Moscow now is managing its status as one of the world's major energy exporters. The Sakhalin-2 development, upon which Japan is

counting for much of its future energy requirements, ran into controversy in late 2006 over its environmental impacts on the islands. Allegations of illegal deforestation and dumping of toxic wastes by the consortium has led to threats from the Russian government that the project may be suspended and the possibility of large fines. Critics argue that Russia is using the environmental damage allegations as a bargaining tool to increase its share of the profits from the operation, which Russian President Vladimir Putin has already criticised for being too loaded in favour of the foreign companies. Given the project's investment so far and its huge profit potential, it is unlikely that it will not go ahead. But Russia's willingness to directly intervene and assert control over its resources<sup>33</sup> is a clear indication that Moscow is no longer as willing to accommodate the interests of foreign investors, which is something of an ominous sign for Tokyo in terms of the economic leverage it has relied on in its relations with the Russian Federation.

Like its relations with China, Japan's developing economic relationship with Russia, which *so far* has managed to avoid the 'hot-cold' dichotomy that continues to plague China's relations with Japan, is handicapped by historical issues. But in this relationship it is the Japanese who claim to be the victims of past injustice due to Moscow's ongoing refusal to return four islands in the Kurile chain north of Hokkaido annexed by the Soviet Union at the end of World War II. This issue has continued to fester for more than 50 years – so much so that Japan and Russia are still technically at war since a peace treaty between the two countries has never been signed. The Japanese emphasise that their position, which demands the return of all four islands, is unchanged. Russia is willing to return two, but regards Japan's demands for all four as 'incomprehensible'.<sup>34</sup> Relations between the two countries have moved forward in spite of their failure to resolve the northern territorial dispute, but Japan's failure to reach a compromise on this issue could again limit the scope and well-being of its external relations.

While Japan's apprehension over China, in addition to the immense strategic value of closely located Russian oil and gas, could well encourage a less inflexible position in its dealings with Russia, the Japanese certainly are not likely to back down on their territorial claims any time soon. But recent engagement between the two countries does suggest that Tokyo is keen to move forward in its Russian relations in order to further strengthen Japan's position against China, both economically and militarily.

In an interesting twist on the Cold War situation in Northeast Asia, some observers argue that Russia also shares the 'China threat' perception and point to jointly held concerns over China's regional ambitions as the reason for Japan and Russia moving closer together. Closer Japanese–Russian engagement over recent years has been demonstrated by annual naval and

coastguard visits between the two countries, growing Japanese investment in Russian business, particularly energy, and a 38 per cent jump in bilateral trade between the two economies in 2004. Echoing the benefits of a closer relationship with Russia vis-à-vis the 'China threat', one Japanese analyst observed that, 'As long as Japan and Russia are in cooperation, China will not be able to move against us.'<sup>35</sup>

The likelihood of a closer security relationship developing between Russia and Japan, however, needs to be tempered by the Northern Territories dispute. Japan's refusal to compromise on the issue remains a serious obstacle to closer Russo-Japanese relations, and there is as yet little indication that the Japanese government is willing to change its stance. In 2000, President Putin renewed Krushchev's 1956 offer to return two of the four islands, and exclude the other two islands from the agenda in the opening stage of multiple negotiations, in order to move ahead with a peace treaty and end the stalemate that has existed since the end of World War II. The then government of Prime Minister Mori agreed to this plan but suffered heavy criticism from nationalist and other conservative groups who feared it would lead to relinquishing Japan's claim on the remaining two islands. Thus when Koizumi replaced Mori as Prime Minister in 2001, he retracted Japan's agreement to this condition and ended the negotiations.<sup>36</sup>

The increasingly competitive nature of China and Japan's energy security ambitions is clearly illustrated by a dispute between the two nations over the demarcation of exclusive economic zones incorporating the Senkaku/Diaoyu Islands on the eastern edge of the East China Sea. Ongoing disagreement over possession of this grouping of small islands and rocky outcrops – which only started in 1971 when China became interested in the islands after a UN survey revealed the possibility of large oil and gas deposits in the surrounding waters – has significantly contributed to the souring of China-Japan relations, and reflects the extent to which both competition over energy sources and nationalist sentiment have become obstacles to political relations improving.

The waters around the Senkaku/Diaoyu Islands, where a Chinese submarine entered Japanese waters in November 2004 setting off yet another diplomatic row, are the centre of both a dispute over EEZ demarcation and, subsequently, the rights to the oil and gas reserves contained within. China already has begun development of gas reserves in an area close to Japan's claimed EEZ boundary. Tokyo has responded by demanding evidence that the Chinese operation is not tapping Japanese reserves and by commencing its own development with test drilling beginning, rather auspiciously, on 1 April 2005. The Japanese government indicated the importance of the disputed reserves by tripling its 2005 budget for energy exploration in the East China Sea from 3.8 billion yen to 12.9 billion yen.<sup>37</sup>

Adding further to the tensions, various nationalist groups from both sides, with China also gaining support from Taiwanese and Hong Kong activists, have attempted to make claims on the islands dating back to the late 1980s. More recently, the Japanese government has sought to further establish its claim by building a lighthouse on one of the islands that will be maintained by the Japanese Coast Guard. Responding to strong Chinese criticisms of the move, former Foreign Minister Nobutaka Machimura stated that 'There is no territorial dispute . . . over the Senkaku Islands . . . This is not even a matter of legality.'<sup>38</sup>

The islands issue, with its prize of possibly huge oil and gas deposits, is now a matter of national pride for both countries as demonstrated by the regular clashes between Chinese protestors and the Japanese Coast Guard and navy that now occur; there is, therefore, little chance of either side backing down. On the contrary, an escalation of the dispute and further damage to China–Japan relations now seems the most likely short-term outcome, particularly in light of Ishihara's announcement in early February 2005 to build an electrical power plant on another island close to the disputed EEZ boundary, which is administered by the Tokyo metropolitan government despite being 1740 km from the Japanese capital. In what no doubt appears to the CCP as a clear provocation, Ishihara aims to counter Chinese marine research in the area by commencing 'visible economic activities' in the waters surrounding the tiny Okinotori Island. After presenting the plan at Koizumi's office, Ishihara made further Chinese criticism certain by saying 'We won't tolerate any words of aggression from China.'<sup>39</sup>

### THE THIRD DIMENSION: ECONOMIC GROWTH

With China continuing to increase its military spending and Japan talking up its plans to bolster an already significant military capability, the spectre of an arms race developing in Northeast Asia has become a common feature of media and other reporting on the region. Looking at Japan and China's current and future military capabilities through the lens of the economic challenges facing both countries, however, provides an alternative indicator to just how big a role 'hard power' is likely to play in Sino–Japanese relations.

Indeed, one of the unexpected outcomes of Japan and China's tense political relationship has been the Asian region's progress towards more comprehensive and structured economic integration over recent years. China, obviously keen to assume a regional leadership role, took the initiative with a 2001 agreement with ASEAN to negotiate a free trade agreement (FTA)

within 10 years. Since then, Japan has appeared to be playing catch-up diplomacy with the ASEAN nations in an effort to counter China's regional leadership ambitions.

### **Economic Growth and Limits to Military Spending**

Despite the political vitriol that continues to be exchanged between the two governments over China's military build up and Japan's potential remilitarisation, there is little evidence to support the view that a military confrontation between the two countries is inevitable, or even likely, at any time in the near future. As argued earlier, economic growth is the overriding priority for both countries and neither government can afford, either politically or economically, the impacts a military action would have on their respective economies, particularly given the significant level of economic interdependence that now exists between the two nations. And while provocation by Taiwan or possibly an energy-related territorial dispute are both plausible causes for open conflict occurring between Japan and China, the possibility of either scenario being played out remains very low, given the huge consequences it would have not only for China and Japan, but also the entire region and beyond.

Thus, in broad terms, economic growth is an overarching priority for both countries that will, barring acts of gross provocation, most likely contain any existing potential for military conflict between them. Moreover, in terms of China and Japan's military spending, at least in the short to medium term, existing and emerging challenges in both economies are very likely to impede the emergence of a Northeast Asian arms race capable of destabilising the region. Japan, for example, struggled with a deflationary economic climate for more than a decade and, despite optimism in 2006 that the economy had finally entered a period of steady domestic demand and growth, considerable uncertainty continues to surround its prospects in the longer term. As a result, Japanese society is now encountering a host of interrelated social and economic problems that the country was once considered immune from. Rising unemployment (officially rated at around 5 per cent but more likely closer to 10 per cent), a welfare system unable to cope with Japan's emerging 'geritocracy', rapidly increasing wealth disparities, and a moribund financial system are all pressing domestic problems that are literally tearing at the fabric of Japanese society; they are, quite clearly, issues that no Japanese government, or opposition, can afford to ignore or appear to take lightly. Economic recovery and Japan's ballooning fiscal debt, therefore, are the government's main priorities, which leaves little budgetary scope for any major increase in military spending.

The relatively minor political importance of nationalist-inspired ambitions to expand Japan's military capability, in comparison with Japan's domestic economic woes, is reflected by a 2005 decision to reduce rather than increase the Japan Defense Agency (JDA) budget, which resulted from Ministry of Finance opposition to additional funding for the JDA's new Mid-Term Defense Program (MTDP). The MTDP was released with the National Defense Program Outline in December 2004 and calls for a number of acquisitions and improvements for the JDA, many of which are likely to be 'technology-intensive' and, therefore, very expensive.<sup>40</sup> According to one Japanese security analyst,

The newly set ceiling of the total budget for the new MTDP is approximately 24.3 trillion yen with [the] annual budget growth rate decreasing . . . In sum, it appears that the Japanese government has set an impossible goal for itself – doing more with fewer resources. How is this possible? The answer is in the process by which the [JDA] and the Ministry of Finance (MOF) negotiated the MTDP and other budget-related matters. To put it simply, there was a clash between the MOF's 'we can only allow this much' budget approach and the JDA's 'these are the resources we need to implement these changes' approach. In the end, MOF clearly prevailed.<sup>41</sup>

The Japanese government's plans for a more 'normal' Japan, as defined by the Bush administration's security vision for the region, are heavily dependent on the more pressing plans for a more 'prosperous' Japan being realised first. This does not appear likely to happen any time soon given Japan's ongoing fiscal crisis and the government's failure so far, and after five years of Koizumi's reform agenda, to implement any meaningful structural reforms.

Japan's annual military spending, however, has remained steady at around US\$47 billion (about 1.5 per cent of GDP), a figure that far exceeds all of its Northeast Asian neighbours' defence budgets, including the PRC's 'official' figures, making Japan the world's third largest defence spender in purchasing power parity terms after the US and Russia.<sup>42</sup> Japan's status as one of the world's highest aggregate defence spenders, according to the Chinese government, makes a mockery of Japan's accusations that China is engaged in a military build up. China's defence spending has been increasing in line with its economic growth over recent years with the PRC's official figure for 2005 at US\$29.9 billion, an increase of 12.6 per cent from last year. But most military analysts agree that China's actual defence spending is probably two or even three times the official figure, because new arms purchases and research and development programmes are not included in the government's defence budget statements.<sup>43</sup> Such an adjustment would make the PRC the world's second largest defence spender at somewhere between US\$60–90

billion, placing it behind only the US with just over US\$400 billion in defence outlays.

But for China to further expand, or even maintain, its current level of military spending to the point where it could exert some measure of military dominance in the region, the government needs to maintain a high level of sustainable economic growth while also reigning in some of the country's emerging social ills. To date, China's levels of annual growth have been steady at between 7–9 per cent, but some observers see a number of looming domestic problems that could derail continued high rates of growth in China. Among these problems figure China's increasingly lopsided male–female birth ratio; its burgeoning demand for external energy supplies, growing income disparities, and high unemployment combined with decreasing levels of state benefits; an unstable and poorly regulated financial system; and a host of emerging environmental problems stemming from the PRC's rapid modernisation and expanding energy consumption.<sup>44</sup>

Adding further to the list of problems facing the Chinese economy is the manufacturing sector's reliance on low wage costs for its competitiveness and low levels of investment in research and development among many Chinese companies. This approach has made China extremely attractive as a manufacturer for foreign companies, and has led to China becoming Japan's biggest export destination, but it does little for the development of Chinese-owned products able to compete both domestically and internationally against foreign brands.<sup>45</sup> China's heavy dependence on foreign investment for its foreign trade growth also makes clear the compelling need for the CCP to avoid any kind of confrontation that could disrupt its foreign trade<sup>46</sup> or cause existing flows of investment capital to suddenly dry up. According to Liew and Wu,

Foreign Direct Investment (FDI), especially since 2000, played a significant role in the growth of China's foreign trade. China's large domestic market and attractiveness as a location for production for export, as a result of its large cheap labour force and WTO membership, have been the magnets for FDI flows into China. Between 1995 and 2000 China received 40 per cent of the FDI flows into Asia. In 2002 China received more FDI than even the US and became the largest recipient of FDI in the world that year.<sup>47</sup>

In spite of its impressive growth, which actually has been slower than that experienced by Japan, South Korea and Taiwan measured at comparable stages of development, the Chinese economy remains extremely inefficient. More than 40 per cent of China's GDP is generated by fixed investment, but Chinese business has so far been unable to fully exploit the full growth potential of the unprecedented levels of capital it has at its disposal. Japan in 1961, South Korea in 1982 and Taiwan in 1976 each achieved

a similar level of per capita GDP as China today, calculated at purchasing power parity, but with much lower rates of investment as a percentage of GDP.<sup>48</sup> This inefficient use of investment within the Chinese economy, caused in large part by the huge amount of bad loans issued by China's banks (approximately \$650 billion),<sup>49</sup> is a major obstacle to further growth in the economy, while any solution undoubtedly will create further pressure on already existing problems such as employment and wealth distribution.

Both China and Japan face serious economic hurdles and challenges, and a large part of the solution to overcoming them rests with their ability to further nurture the existing economic relationship. As argued here, while the clear economic value of the relationship should in itself provide ample reason for avoiding any serious political confrontation, the prospect of conflict, either over Taiwan or energy rights, cannot be entirely dismissed. However, the ability of either country, given Japan and China's current economic situations, to significantly increase, or possibly even maintain, their current levels of military spending over the next 5–10 years is far from clear. Subsequently, any major change in the regional balance of military power will probably remain a remote possibility until Japan and/or China are able to overcome their existing economic and social problems and settle into a phase of stable, long-term growth.

### **Regional Engagement**

Japan's efforts to build good relations in Southeast Asia in the post-war period generally have been very successful. Successive Japanese governments have largely managed to blot out the stigma of Japan's wartime aggression by making Japan a major investor and aid donor in the region and maintaining a close security relationship with the US. But Japan's close ties with the US, and other Western allies such as Australia, have also created something of an identity crisis for the Japanese and encouraged suspicion in the region over where Japan's true loyalties lie. This uncertainty over Japan's commitment to Southeast Asia and its ability to drive economic growth and development has been augmented in more recent times by Japan's declining levels of trade and investment in the region, which has resulted from both its own flagging economy and also its preoccupation with trade and investment opportunities in China.

The Chinese government, in contrast, has managed to largely alter its post-Cold War identity as a regional security concern to one where China is now generally perceived in Southeast Asia as much more of an economic opportunity than a threat. China's image among the ASEAN nations was bolstered by the CCP's refusal to devalue the renminbi during the Asian

financial crisis and its financial contributions to hard-hit countries such as Thailand. China's perceived resilience in the face of the economic chaos that enveloped the region raised Chinese credibility in Southeast Asia, particularly when juxtaposed with the lack of initiative displayed by Japan's leaders who appeared preoccupied with their own financial problems during the crisis.

Since 2001, China and Japan appear to have become involved in an 'FTA race' that reflects the determination of both countries to 'not only counter the trade discrimination and distortion that an FTA without them would create, but also to compete for the dominant leadership position in the region'.<sup>50</sup> Responding to China's FTA proposal to ASEAN in late 2001, Koizumi went one step further by proposing a 'Japan-ASEAN comprehensive economic initiative' which, in addition to a Japan-ASEAN FTA, would be region-wide and include the ASEAN+3 partners (ASEAN plus China, Japan and South Korea) and also Australia and New Zealand.<sup>51</sup> Negotiations are now under way for separate FTAs between ASEAN and two of its three northern dialogue partners, China and South Korea. Japan, for its part, is currently pursuing bilateral FTAs with individual ASEAN members following its successful conclusion of an FTA with Singapore in 2002. Australia and New Zealand are also engaged in FTA proposals with ASEAN members, and Australia has recently raised the possibility of additional bilateral FTAs with China and Japan.

In spite of Japan's ASEAN+5 proposal for including Australia and New Zealand, current indications are that the ASEAN+3 arrangement is likely to remain the vanguard for any future Asian economic collective. However, China's rapid progress in concluding the first phase of negotiations for its FTA with ASEAN supports a widely held belief that China has taken the lead in developing regional economic trade links with ASEAN, and that both Japan and South Korea are being left behind. The concern for both Japan and the US is China's potential rise as East Asia's major regional player, a development that could have serious implications for the US and Japan's trade and security interests in the region. But while China certainly appears to be gaining the upper hand at the moment in its tussle with Japan over the hearts and minds of ASEAN's leaders, there is no evidence that the ASEAN states are going to welcome either Japan or China becoming the dominant player. Both countries present problems and issues in this role that make the ASEAN states uncomfortable. Japan, however, needs to do more to counter China's growing influence, and a large part of the challenge for the Japanese is to build confidence in Japan's commitment to the region. Indeed, ASEAN is sure to want to continue enjoying the benefits provided so far by Sino-Japanese competition; thus its members will probably attempt to play China and Japan off against each other in order to gain maximum advantage for

themselves while also ensuring neither Japan nor China feels it has lost out to the other in terms of influence. As Jian Yang argues,

Thus, despite its consensus that engagement is the only realistic policy towards China, ASEAN members would like to see a more active Japan, partly to balance the uncertain China. Whether Japan is able to live up to the expectation will depend on its own determination, its ability to engage the region more independently, and its economic and political development.<sup>52</sup>

Encouraging ongoing dialogue on regional security and economic issues between China and Japan, through the Asian Regional Forum and ASEAN+3, is a crucial role for the ASEAN states to play in ensuring political competition between the two does not escalate into conflict. ASEAN's own future stability and prosperity depends upon the involvement of both China and Japan, but is contingent upon neither becoming dominant.

## CONCLUSIONS

The current outlook for Sino–Japanese relations is not a positive one. As this chapter has argued, the best that can be hoped for in the short to medium term is that the ‘hot’ economic relationship will continue to provide both governments with enough motivation to contain their political animosity towards each other and resist any temptation to cause the relationship to deteriorate any further.

The existing ‘hot–cold’ relationship, based on growing economic interdependence and mutual suspicion, is shaping Japanese foreign policy, and also Japan's international identity, in much the same way that external forces and crises historically have shaped the outlook and actions of Japan's leaders. Indeed, little has changed in terms of Japan's foreign policy objectives and strategy throughout the post-war period. A heavy reliance on the alliance with the US for security and strategic direction, consistent rejection of internationally supported accounts of Japan's military past and aggression, and a single-minded pursuit of economic and business interests represent the three pillars of Japanese foreign policy over the last 60 years, and they remain so today. Japan's structural impediments to change – such as the nation's preoccupation with its military past, a weak executive, a convoluted parliamentary process and bureaucrat-dominated policy process, the factionalised internal character of the LDP, despite Koizumi's claims to the contrary, and the government's close relations with business interests – reinforce subscription to the old model and need to be overcome before any substantive change in Japanese foreign policy can be realised.

In the absence of any alternative to an LDP-led government, which could present itself in the form of a more reform-minded and ‘internationalist’-orientated Democratic Party of Japan government, the current hot–cold relationship will at best continue and at worst deteriorate further to the point where the economic relationship also suffers. The interrelated nature of the tensions being generated within the three dimensions of the relationship, as outlined here, rule out any ‘quick-fix’ to Japan and China’s animosity towards each other and could well defy concerted future attempts at reconciliation by both governments if steps are not taken quickly to limit any further political damage; strong, nationalist-driven feeling against another country or people is difficult to control once it becomes widely embraced. Japan, for its part, needs to quickly adapt to the changed circumstances of its international situation, and develop a more assertive foreign policy and worldview that clearly has moved on from the Cold War mentality of the Yoshida doctrine and conservative perceptions of its military past. Without such changes, Japan could well become marginalised, both politically and economically, in the region, or possibly be drawn into direct conflict with China. In either scenario, Japan and the Asia–Pacific region as a whole will be much the poorer as a result.

## NOTES

1. Refers to the reconstruction policy for Japan devised by Japan’s first post-war Prime Minister, Shigeru Yoshida. The Yoshida doctrine advocated adopting the US stance on security and international relations issues in order to allow Japan to focus its resources on economic production and the creation of a skilled labour force.
2. Kent Calder (2003), ‘Japan as a post-reactive state?’, *Orbis*, Fall, p. 615.
3. By 1986, China’s trade with Japan already had become larger than China’s combined trade with the US, West Germany and the UK. Allen Whiting (1989), *China Eyes Japan*, Berkeley: University of California Press, p. 199.
4. See the debate between Zbigniew Brzezinski and John Mearsheimer (2005), ‘Clash of the Titans’, *Foreign Policy*, January/February, pp. 46–50.
5. See Eric Heginbotham and Richard Samuels (2002), ‘Japan’s dual hedge’, *Foreign Affairs*, September/October, 81 (5), ProQuest Database, document ID 276842451.
6. Article alerts ‘China–Japan relations to changes’, *People’s Daily Online*, 24 December 2004, available at [http://english.people.com.cn/200412/24/print20041224\\_168531.html](http://english.people.com.cn/200412/24/print20041224_168531.html).
7. *Ibid.*
8. See for example Peter Hays Gries (2004), *China’s New Nationalism: Pride, Politics and Diplomacy*, Berkeley: University of California Press; and Leong Liew and Doug Smith (2004), ‘Nexus between Nationalism, Democracy and National Integration’, in Leong Liew and Shaoguang Wang (eds), *Nationalism, Democracy and National Integration in China*, London: RoutledgeCurzon, pp. 3–20. See also Jian Zhang in Chapter 2.
9. In the late 1980s, when Japan–US trade friction was at its height, current Tokyo Governor and former LDP Transport Minister Shintaro Ishihara and Sony Chairman Akio Morita co-wrote *The Japan That Can Say No: Why Japan Will Be First Among Equals*. The book, which Morita reportedly later distanced himself from, was essentially a nationalist account

- of Japan's standing in the world and the need for Japan to take a tougher line in its dealings with the US in order to improve the relationship. Among the arguments made in the book is Ishihara's contention that the US use of atomic weapons against Japan but not Germany was racially motivated.
10. Wenrang Jiang (2005), 'China's "new thinking" on Japan', *China Brief*, V (3), 1 February, p. 3.
  11. 'Japan textbook angers Chinese, Korean press', *BBC News*, available at <http://news.bbc.co.uk/go/em/fr/-/1/hi/world/asia-pacific/4416593.stm>.
  12. Yoichi Funabashi (1998), 'Tokyo's depression diplomacy', *Foreign Affairs*, November/December, p. 26.
  13. Bert Edstrom (2004), 'The Yoshida doctrine and the unipolar world', *Japan Forum*, 16 (1), March, p. 81.
  14. One recent example of the ambiguity that continues to cloud Japanese policy making is a report to Prime Minister Koizumi by the Araki Commission, which helped shape the NDPO. The report's recommended security strategy is built upon three vague and unhelpful principles that appear to completely ignore the problems and issues that Japan currently faces both in the region and in its security alliance with the US: 1) enhance Japan's own defence capability; 2) enhance and reaffirm the security alliance with the US; and 3) enhance cooperation with the international community. See David Fouse (2005), 'Japan's FY 2005 National Defense Program Outline: new concepts, old compromises', *Asia-Pacific Security Studies*, 4 (3) March, available at <http://www.apcss.org/Publications/APSS/Japans%20FY2005%20National%20Defense%20Program%20Outline.pdf>.
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