

# China and Japan: Economic Partnership to Political Ends

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*China and Japan are friendly neighbors separated only by a strip of water, and the people of the two countries have forged a profound friendship through their exchanges for more than two thousand years . . . . Culturally our two countries have a lot in common that makes it easier for us to communicate with each other and help increase our mutual understanding and trust.*

Jiang Zemin, General Secretary of the Chinese Communist Party  
Speech to the Committee on Non-Governmental Organizations, 1992

*To the Japanese, China is a foreign country...*

Kato Shuichi, Professor of International Relations  
Ritsumeikan University, 1974

Japan and China are the giants of Asia. The future of their relationship is absolutely critical to the peace and security of Asia. That relationship is complex: for over two millennia, beginning in the third century BC, the pair has maintained cordial relations. For fifty years during that period, from 1894 to 1945, they were at war. At the dawn of the twenty-first century, both struggle with the legacies of war and peace as they seek to define their roles in a rapidly changing world.

Economic relations have played a pivotal role in their relationship, solidifying the foundation on which political relations are built, providing a balm in times of trouble, and marking the way to formal diplomatic relations. This essay explores the interaction of economic and political forces in Sino–Japanese relations. It is divided into five sections corresponding to five distinct phases of the relationship. In the first section, I focus on the building blocks forged by China and Japan over two millennia of interaction until the outbreak of war in 1894. I show how initial trading relations between the mainland and the archipelago blossomed into cultural and political exchange in a process which brought massive learning and change to Japan. I argue that these ties sustained Sino–Japanese relations in times of conflict, as they slipped seamlessly into an informal realm which allowed both countries to keep relations on an even keel even in the face of formal political discord. In the second section, I focus on the fifty years of conflict, showing that during this time, Japan's economic ambitions ran roughshod over past patterns of interaction, even as Japan's imperial armies overran the continent in a devastating war which would scar the relationship indefinitely. In the third section, I discuss Sino–Japanese relations during the

Cold War era, focusing in particular on the period from the end of the war in 1945 to the normalization of relations in 1972. I describe how the US–Japan Security Treaty dominated relations between China and Japan, and argue that both countries attempted to bolster economic ties with an eye to eventual political reconciliation. In the fourth section, I examine the brief period between 1972 and 1978 when Japan seized the diplomatic initiative to normalize relations and sign a peace treaty with China. I explain how both China and Japan reaped the fruits of their earlier endeavors and experienced a surge in economic interaction. In the final section, I focus on the complex period from 1979—when China "opened its door"—to the present. I argue that economic interaction continues to provide the foundation for the political relationship, but also affirm that both countries are struggling to come to terms with a legacy of war and define their roles in an evolving post-Cold War security framework.

## **BUILDING BLOCKS: SINO-JAPANESE RELATIONS TO 1894<sup>1</sup>**

To the Western mind, the subject of Sino–Japanese relations conjures up images of Japanese atrocities during World War II—the puppet state of Manchukuo, the Rape of Nanjing, biological warfare units—yet it is an oft neglected fact that for over two millennia, from the third century B.C. until the outbreak of the Sino-Japanese War in 1894, economic interaction between China and Japan provided the basis for a productive period of cultural exchange and political stability. As a result of its interaction with China, Japan accumulated a wealth of knowledge, adopting the Chinese writing system, learning from China's advanced technical expertise, and emulating China's political institutions. That both Chinese and Japanese leaders continue to make official reference to this legacy bears testimony to the enduring significance that this history holds for both countries. In 1992, General Secretary Jiang Zemin declared that ". . . the two people of the two countries have forged a profound friendship through their exchanges for more than two thousand years . . ." <sup>2</sup> In Japan, *dobun doshu*, meaning "same script, same race," is a common phrase which acknowledges Japan's cultural debt to China.

A long period of economic interaction forged the beginnings of the China–Japan relationship. First recorded contact between the two countries came in the third century B.C.<sup>3</sup> Over three hundred

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<sup>1</sup> Unless otherwise noted, this section is based on Mikiso Hane, *Modern Japan: A Historical Survey* (Westview Press, 1992); Immanuel C. Y. Hsu, *The Rise of Modern China* (Oxford University Press, 1983); and Caroline Rose, *Interpreting History in Sino-Japanese Relations: A case study in political decision-making* (Routledge, 1998), particularly 4–21.

<sup>2</sup> Jiang Zemin, *International Situation and Sino-Japanese Relations*, Consulate General of PRC (Manchester) Press Bulletin (92) 004, 9–10, cited in Rose, 5.

<sup>3</sup> The earliest record of formal relations were missions to China from the country of "Wa" (the Chinese name for Japan until the seventh century) in 57 A.D. and again in 107 A.D.

years later, at the dawn of a Christian era, official political contact was made. In the wake of merchants and goods came ideas and institutions, which exerted a profound effect across the Japanese archipelago. In the time of China's Qin (221–207 B.C.) and Han (206 B.C.–220 A.D.) dynasties, records indicate that Chinese immigrants introduced a wide variety of new techniques such as weaving and rice cultivation, and Chinese cultural influences filtered through Korea into Japan. Between the fifth and tenth centuries A.D., the Sino–Japanese relationship blossomed as economic ties expanded, bringing Chinese influence to a broad spectrum of spheres: social, cultural, economic, and political. China's institutions, developed under the Sui (581–618 A.D.) and Tang (618–907 A.D.) dynasties—both of which presided over a period of economic prosperity and social stability—served as models for Japan. Most significant among these were the introduction of Buddhism and Confucianism, the adaptation of the Chinese writing system, and the proliferation of Chinese arts and crafts. Key Japanese leaders of the period played a pivotal role in ushering in the Chinese influence. Under Japan's Yamato period (300–710 A.D.), Prince Shotoku (574–622 A.D.) worked to shore up imperial authority and propagate Buddhism, while another important Japanese figure, Nakatomi-no-Kamatari (614–669 A.D.), instituted the Taika Reforms—adopting Chinese political institutions and policies, as well as tax and land policies, including nationalization and equalization of landholdings. Most significantly, in the realm of political institutions, China's example inspired Japan to establish a fixed capital city—first at Nara in 710 A.D., and later at Kyoto in 794 A.D. In short, over the course of a millennium, Japan's economic interaction with China built the foundation for a period of prosperity, growth, and political cooperation.

A millennium of fruitful economic interaction and peace served both countries well in changing times. The rumblings began in Japan when a movement developed against a perceived cultural dependence on China; members of Japan's aristocratic court formulated a phonetic writing system—*kana*—along with a distinctive style of poetry known as *waka*, both symbolically indicative of the nascent nativist Japanese movement.

Initially, levels of economic interaction remained high. During China's Song dynasty (960–1279), between forty and fifty trading vessels plied the waters between the two countries every year. By the time of the Yuan dynasty (1271–1368), however, Japanese pirates, known as *wako*, threatened the Chinese coast and China responded with attempted attacks on the Japanese islands. Japan turned inward, and between the tenth and fourteenth centuries, the two countries had virtually no official contact. Japanese resentment towards China reached new heights at the close of the fourteenth century, when the powerful Ming dynasty (1368–1644) forced Japan into a reluctant tributary relationship.<sup>4</sup> Japan accepted

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<sup>4</sup> Japan ranked very low on the Ming scale of tributary countries, however, and although Japan paid tribute to China for some one hundred and fifty years in the fifteenth and sixteenth centuries, there were only nine missions to China during this time. In contrast, Korea, which ranked high on the Ming scale, paid tribute four times a year.

its inferior status until 1547—the year of the last recorded tribute mission—when it cut off the tributary relationship and established a rival system of its own, competing with China for control of the Korean peninsula.<sup>5</sup> By the 1590s, Japanese and Ming troops came to blows over attempted Japanese expansion into Korea. Under the Tokugawa *Bakufu* system (1600–1868), Japan *sakoku*, or isolationist, policies restricted official economic relations throughout the eighteenth century. China's status in the Japanese *Bakufu* view fell, while *sakoku* policies—intended mainly for the Portuguese—had the simultaneous effect of restricting Chinese access to the open ports of Nagasaki and Hirado. With the demise of the Ming in China, the new Qing dynasty made no effort to resume official relations with Japan and the Manchu rulers did not attempt to draw Japan into the tributary system.

Although the second millennium of Sino–Japanese relations was not as peaceful as the first, continued "unofficial" economic interaction forestalled an outbreak of open hostilities and fostered a continuous flow of goods and ideas into Japan. Indeed, it was during this period that the distinction between official—what Japanese call *tatema* (“the official version”), and unofficial—known as *honne*, (“the true intention”), became absolutely critical in the realm of foreign relations. Sino–Japanese "true" interaction was significantly greater than that officially recognized. So tenacious were these unofficial connections, that the cultural and technological cooperation which they brought with them led to somewhat of a return to the earlier "China boom" era. The tributary system itself did have a trade component, and Japan's *sakoku* policy did allow for some official trading relations; but these were far outstripped by powerful unofficial economic relations that operated across a vast network covering Asia and reaching as far as the Persian Gulf to the west and Acapulco Bay to the east. Sino–Japanese economic interaction operated chiefly through intermediaries, the most significant being Taiwan, the Ryukyus, and Korea.<sup>6</sup> Even under Japan's self-imposed isolation, therefore, intellectual and cultural exchange continued to flourish.<sup>7</sup> Indeed, the Tokugawa period witnessed a renaissance in cultural exchange with increased Japanese interest in China's medical and literary advances under the Qing dynasty (1644–1911), as well as in the areas of law, administration, education, and the Confucian classics.<sup>8</sup> By the close of the eighteenth century the power of these unofficial relations began to permeate the official realm. Japan's reforming Shogun, Toshimune, actively encouraged technology transfer in

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<sup>5</sup> Christopher Howe, "Introduction: The Changing Political Economy of Sino–Japanese Relations: A Long Term View," in Christopher Howe ed., *China and Japan: History, Trends, and Prospects* (Oxford: Clarendon Press, 1996), 4.

<sup>6</sup> *Ibid.*

<sup>7</sup> Ronald P. Toby, *State and Diplomacy in Early Japan* (Princeton, NJ: Princeton University Press, 1984).

<sup>8</sup> Marius B. Jansen, *China in the Tokugawa World* (Cambridge, MA: Harvard University Press, 1992).

agriculture, relying on Chinese immigrant expertise and relaxing the *sakoku* rules to allow the import of Chinese botanical texts.<sup>9</sup>

The arrival of Admiral Perry in Japan in 1853 was to prove a turning point for Japan as well as for China. Exposure to the West afforded both countries an opportunity for increased interaction, and Japanese traders began to appear in Shanghai aboard British and Dutch ships. In 1868, the Tokugawa shoguns fell prey to the strain between their own isolationist policies and Western incursions, and by 1870, the new Meiji government established official relations with China. On 24 July 1871, after some three hundred years of official non-communication, the two sides signed a commercial trade treaty, stipulating non-aggression towards each other's territories.<sup>10</sup>

### **BAD TIMES: 1894–1945**

The goodwill signaled by the commercial trade treaty did not last. For fifty subsequent years, Japan's enormous economic ambitions translated into a quest for empire as Japan's powerful army moved across Asia in search of colonies. The results were apocalyptic. Euphemistically termed "unfortunate," this period holds a powerful legacy for the bilateral relationship.

Contact with the West catapulted Japan's imperial yearnings to center stage, as Japan sought to emulate the Western powers.<sup>11</sup> The trouble began only three short years after Japan signed the commercial trade treaty with China. In 1874, Japan sent a military expedition to the island of Formosa—today's Taiwan—and in 1879, annexed Ryuku island and renamed it Okinawa. In the same period, Japan dispatched an expedition to Korea, forcing the opening of Korea which signed the Treaty of Kangwha on 24 February 1876. Conflicting Chinese and Japanese interests on the Korean peninsula led to a declaration of war on 1 August 1894. By February of the next year, Japan dealt the Chinese forces a crushing defeat and Japanese forces occupied Dairen (today's Dalian) and Port Arthur (today's Lushun), both key cities in Manchuria. The war officially ended with the Treaty of Shimonoseki on 17 April 1895. The treaty recognized Korean independence, ended Korean tribute payments to China, ceded Taiwan, the Pescadores, and the Liaotung peninsula to Japan, and granted Japanese nationals the right to set up

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<sup>9</sup> Howe, "Introduction: The Changing Political Economy of Sino-Japanese Relations," 5.

<sup>10</sup> Hsu, *The Rise of Modern China*, 315.

<sup>11</sup> In his recent Pulitzer Prize winning book, John Dower explains: "While most of the world fell under the control of the Western powers, Japan emulated them and joined their banquet." John Dower, *Embracing Defeat: Japan in the Wake of World War II* (W. W. Norton & Company / The New Press, 1999), 21.

factories and manufacturing facilities on the Chinese mainland.<sup>12</sup> Taiwan fiercely resisted Japanese claims, declaring an independent Republic of Taiwan, but by October 1895, Japanese occupation of the island was a *fait accompli*. Japan held the island of Taiwan for fifty years until the end of World War II. Defeat came as a shock to China and signaled the demise of the Qing dynasty. Chinese resentment of Japan gave birth to grudging admiration, and by 1896, in a reversal of fortune, China began to send students to Japan. Among the Japanese, traditional admiration for China turned quickly to contempt.

The onset of Japanese imperialist ambition did not go unnoticed, and Japan soon felt the brunt of foreign displeasure. Only six days after the signing of the Treaty of Shimonoseki, Russia, France, and Germany expressed official dissatisfaction with Japan's occupation of the Liaotung peninsula. Russia initiated the action, indicating that the Russian army would take action to ensure that Japan did not establish this foothold on the Asian mainland. As a result, Japan agreed to withdraw from the peninsula for the price of 30 million *teals*—approximately \$23 million.<sup>13</sup> Seizing the opportunity to ingratiate itself with the Chinese court, Russia offered China loans to pay the Japanese indemnity. Russia hoped to win concessions to extend the Trans-Siberian Railroad across Manchuria to Vladivostok. Within the year, Russia won the right to construct the railway from China to Vladivostok, and by December 1897, Russian troops moved into Port Arthur and Dairen. Moscow then imposed an agreement on China forcing Beijing to lease these two ports for twenty-five years, and proceeded to build the Southern Manchurian Railroad linking Harbin with Port Arthur. In short, Russia appropriated the Liaotung peninsula only three years after China had bought the area back from Japan using a Russian loan. Russian incursions raised grave concern among other powers, notably Japan, but also Britain, Germany, the United States, Austria, and Italy. In the face of international opposition, Russia ultimately acquiesced to a three-stage evacuation of Manchuria. Russia did implement the first stage, but by the time the second stage was to begin in April 1903, Russia refused to comply.<sup>14</sup>

Russian de facto occupation of Manchuria, as well as Russia's considerable interest and growing influence on the Korean peninsula, raised fears in Japan of growing Russian imperialism and foreshadowed the Russo–Japanese War. Russian and Japanese inability to resolve conflicting territorial claims in Manchuria and Korea led to a declaration of war on 4 February 1904—a war from which Japan emerged victorious. As a result of the Treaty of Portsmouth, which ended the war, Japan acquired the

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<sup>12</sup> Hsu, *The Rise of Modern China*, 342.

<sup>13</sup> One *teal* equaled one Chinese ounce, or 1.208 English ounces, of pure silver. In 1895, the value of one *teal* was three shillings and two pence, or about 76.7 cents).

<sup>14</sup> Hsu, *The Rise of Modern China*, 345–404.

southern half of Sakhalin, a leaseholding of the Liaotung Peninsula, including the ports of Dairen and Port Arthur, and an important section of the Chinese Eastern Railway. Despite these concessions, in August of 1910, Japanese concern over excessive Russian influence in the area led to the Japanese annexation of Korea.<sup>15</sup> Japan invested heavily in its new Manchurian acquisitions: "...the Southern Manchurian Railway, gas and electricity companies, mines and iron foundries all received massive injections of capital in the early 1900s as a result of the policy of economic modernization and resource development."<sup>16</sup>

The 1911 revolution in China gave new voice to Chinese nationalist sentiment, and raised vocal concerns about Japan's "economic invasion," as well as fears of a potential military invasion. In 1915, Japan imposed the "Twenty-One Demands," further advancing Japan's march into China. Over the course of World War I, Japan continued to press its advantage in China, laying territorial claim to the Shandong peninsula (held by Germany), demanding mining concessions in the Yangtze river valley, and insisting that foreign access to all Chinese ports be limited to Japan alone. The Treaty of Versailles in 1919 ceded the German-held territory in China to Japan, sparking outrage in China, boycotts of Japanese goods, and leading to the May 4<sup>th</sup> Movement which facilitated the Chinese Communist Party's (CCP) rise to power.

During this period, Japan's grip on its newly acquired Manchurian leasehold grew. There were only 3,800 Japanese nationals in China in 1900, but by 1920, close to 134,000 Japanese lived on the Chinese mainland, most of them in the urban centers of Manchuria.<sup>17</sup> Japan's Kwantung Army was charged with the task of safeguarding the leasehold interests. In the twenty years that followed Japan's 1905 victory over Russia, the Kwantung Army became a force unto itself. As prominent China historian Immanuel Hsu explains: "Virtually free from home control, the Kwantung army enjoyed a semiautonomous status and took upon itself the task of wresting Manchuria from China."<sup>18</sup> In 1928, its officers unilaterally moved their headquarters from Port Arthur to Mukden (today's Shenyang). The leaders of the Kwantung Army—notably Lt. Colonel Ishiwara Kanji and Colonel Itagaki Seishiro—deemed 1931 a propitious year to begin the occupation of Manchuria. China was internally mired in conflict and stricken by natural disaster, the Western powers suffered under the Great Depression, and at

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<sup>15</sup> Mikiso Hane, *Modern Japan: A Historical Survey, Second Edition* (Boulder, CO: Westview Press, 1992), 171–180.

<sup>16</sup> Rose, 12–13. See Peter Duus, Ramon H. Myers and Mark R. Peattie, eds., *The Japanese Informal Empire in China, 1895–1937* (Princeton NJ: Princeton University Press, 1989), 8.

<sup>17</sup> Hane, *Modern Japan: A Historical Survey, Second Edition*, 201.

<sup>18</sup> Hsu, *The Rise of Modern China*, 547. Also see Sadako N. Ogata, *Defiance in Manchuria: The Making of Japanese Foreign Policy, 1931–1932* (Berkeley, 1964), 3–4; and Takehiko Yoshihashi, *Conspiracy at Mukden*, 130–131.

home in Japan, the militarists were on the political rise. On the economic front, trade with China accounted for 21.4 percent of Japan's imports and 21 percent of Japan's total annual exports, while 75 percent of Japan's foreign investment already flowed into Manchurian territory.<sup>19</sup> At 10:00 p.m. on 18 September 1931, a small group of Kwantung army officers blew up a section of the South Manchurian Railroad near Mukden. Using the explosion as an excuse for intervention—and claiming that Chinese troops were responsible for the explosion—the Kwantung Army moved into Mukden, occupying the city by 3:40 a.m. By 19 September, Japan held Changchun and Antung. Yinkow fell on 20 September and Kirin (Jilin) on 21 September. Within five months of the "Manchurian Incident," the Japanese army overran the entire territory of Manchuria, and on 9 March 1932, created the puppet state of Manchukuo, installing China's last emperor, Pu-i, as Chief Executive.<sup>20</sup>

Manchuria was but the first morsel of Chinese territory to fall to Japanese forces. The Sino–Japanese War broke out in the summer of 1937, sparked by an incident at the Marco Polo Bridge just outside Beijing. From the Northeast, Japan moved down to North China, opened a second front in Shanghai, and in December 1937, took over the southern capital of Nanjing in a notorious massacre which became known as the Rape of Nanjing. Over the course of a war, which lasted eight years, Japan took over most of China's seaboard in a vast swath that stretched from Manchuria in the north to Hainan Island in the south. Chinese girls and women were forced into prostitution, serving as "comfort women" to the Japanese troops. From the outbreak of war in 1937 until the Japanese attack on Pearl Harbor in December 1941, China fought the war alone. The only country to extend substantive aid to China was the Soviet Union, which sent loans and technical assistance through the end of 1939. After Pearl Harbor, America recognized nationalist leader Chiang Kai-shek as the supreme commander of the Asia theatre and dispatched General Joseph Stilwell as Chiang's chief of staff. From 1942 until the end of the war, US credits to Nationalist China reached the unprecedented level of \$500 million, and Lend-Lease aid rose to \$1.3 billion.<sup>21</sup>

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<sup>19</sup> Hsu, *The Rise of Modern China*, 547–548.

<sup>20</sup> Hsu, *The Rise of Modern China*, 547–551.

<sup>21</sup> Hsu, *The Rise of Modern China*, 600–601.

This period—from the occupation of Manchuria in 1932 through Japan's surrender in 1945—was the bleakest in the history of Japan–China relations, and continues to be one of the most sore points in the current relationship. Japan's occupation was brutal.<sup>22</sup> Perhaps one of the most infamous practices during this period was the biological warfare research that Japan undertook on the mainland. Japan's "factories of death" tortured and killed untold numbers of Chinese nationals—along with White Russians, Soviet prisoners captured in 1939 and 1940 border skirmishes, Mongolians, Koreans, and Europeans—who became human subjects in Japan's drive to develop biological weapons.<sup>23</sup> One of the most notorious of these units was called "Unit 731," located twenty kilometers outside the Manchurian city of Harbin and was run by Ishii Shiro, an army doctor and chief of the Kwantung Army "Water Purification Bureau." Ishii recruited the best and the brightest of Japan's military establishment to participate in what was considered to be an elite assignment.<sup>24</sup> The unimaginable cruelty of the Japanese doctors who performed these experiments is legendary. Through personal interviews with actual observers, Sheldon Harris has described, for example, the reaction of the Japanese doctors to the attempted escape of some one hundred

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<sup>22</sup> Jung Chang's novel, *Wild Swans*, movingly depicts a Chinese child's experiences under Japanese rule in Manchuria: "Early in 1938, my mother was nearly seven. She was very bright, and very keen to study. Her parents thought she should begin school, as soon as the new school year started, immediately after Chinese New Year...Education was tightly controlled by the Japanese, especially history and ethics courses. Japanese, not Chinese was the official language in the schools. Above the fourth form in elementary school teaching was entirely in Japanese, and most of the teachers were Japanese...The teachers said that Manchukuo was a paradise on earth. But even at her age my mother could see that if the place could be called a paradise it was only for the Japanese. Japanese children attended separate schools, which were well equipped and well heated, with shining floors and clean windows. The schools for the local children were in dilapidated temples and crumbling houses donated by private patrons. There was no heating. In winter the whole class often had to run around the block in the middle of a lesson or engage in collective foot-stamping to ward off the cold...When local children passed a Japanese in the street, they had to bow and make way.... Japanese children would often stop local children and slap them for no reason at all." Jung Chang, *Wild Swans: Three Daughters of China* (Anchor Books, 1991), 62–64.

<sup>23</sup> Sheldon H. Harris, *Factories of Death: Japanese Biological Warfare, 1932–1945, and the American Cover-Up* (Routledge, 1994).

<sup>24</sup> Harris describes the procedure: "Murata ('logs') were dragged from their cells in buildings 7 and 8, or their smaller compounds in the branch units, and led into the underground testing facilities. Here scientists injected victims with pathogens of differing dosages in order to determine the appropriate quantity of a specific germ to administer to individuals or to a general population. Tests were conducted on the 'logs' with separate properties to learn whether certain foods, fabrics, tools, or utensils could be used as germ carriers. Human subjects were forced to eat different foods laced with specific germs. These included chocolates filled with anthrax, and cookies containing plague bacteria. Other subjects were given various fluids (tea, coffee, milk, water, beer, spirits, etc.) to drink, with each fluid containing some specific dose of a pathogen." Harris, *Factories of Death: Japanese Biological Warfare, 1932–1945, and the American Cover-Up*, 62.

prisoners which ended in the prisoners' deaths: ". . . some of the doctors associated with the experimentation cried tears of regret when their valuable experimental materials were wasted."<sup>25</sup>

When Japan was at last forced out of Manchuria, the retreating Japanese army took care to destroy the evidence of its crimes. In the places where the biological warfare institutes stood, advancing Soviet troops found largely rubble and were horrified to discover untold thousands of human and animal remains amidst puzzling numbers of rodents, sick livestock, and packs of monkeys wandering in the vicinity. Today, only the eerie remains of the boiler room and scattered remnants of torture instruments and grainy photographs remain.<sup>26</sup> Manchuria's liberation came in 1945 as a result of agreements reached among the Big Three—the Soviet Union, the United States, and Britain—and a bilateral agreement between the Soviet Union and China's Nationalist leadership. Under the terms of these agreements, the Soviet Union entered the Pacific War on 8 August 1945, and agreed to remove Soviet troops from Manchuria within three weeks of Japan's defeat, respect Chinese sovereignty in Manchuria, and assume joint control of the Southern Manchurian Railway and the Chinese Eastern Railway for a period of thirty years. Under the terms of the Soviet–Chinese treaty of alliance, Dairen was to be a free port open to all treaty nations, while Port Arthur would become a joint Chinese–Russian naval base.<sup>27</sup> Actual Soviet troop activities in Manchuria bore little resemblance to the terms of the treaty. Soviet troops looted the region's industrial plants and hauled off equipment as war trophies.<sup>28</sup> As CCP forces moved into Manchuria, Soviet troops eventually evacuated the area in May 1946, nearly nine months after their arrival. Over the ensuing four years of China's civil war, the CCP victory in Manchuria dealt the fatal blow to the Nationalist government. By November of 1948, Lin Biao's Communist troops secured Manchuria in a campaign that cost the Nationalists 470,000 of their best troops. Less than a year later, Mao Tse-tung declared the birth of the People's Republic of China.

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<sup>25</sup> Harris, *Factories of Death: Japanese Biological Warfare, 1932–1945, and the American Cover-Up*, 71.

<sup>26</sup> Katherine Burns, personal observations, June 1997.

<sup>27</sup> Hsu, *The Rise of Modern China*, 610.

<sup>28</sup> *Ibid.*, 623.

## **BENEATH THE BLANKET OF THE COLD WAR: 1950–1972<sup>29</sup>**

Japan's devastating war on China left an indelible mark on Sino–Japanese relations. Furthermore, the division of the post-war world into competing superpower blocks locked the two countries into opposing camps. In Asia, the symbol of that struggle was the US–Japan Security Treaty which came into force on 28 April 1952, and bound Japan tightly to the dictates of American foreign policy. For over twenty years, both China and Japan champed at the Cold War bit. Seeking some form of reconciliation within the Cold War framework, they turned in effect to an earlier strategy of shoring up unofficial relations in an effort to build trust and establish a formal relationship. The primary instrument of that endeavor was economic. It would be over two decades before that effort bore fruit.

The special relationship which America established with its vanquished Asian foe was intended to bring about "demilitarization and democratization" in Japan. It was also intended to forestall any potential future cooperation between Japan and mainland China—an arrangement that US policy-makers felt would threaten US interests in Asia.<sup>30</sup> Hoping to drive home the American wedge between Japan and China, John Foster Dulles suggested in 1951 that: "the United States and England should make every effort to assure Japan's allegiance by exploiting the Japanese feeling of superiority toward other Asians."<sup>31</sup> The outbreak of hostilities on the Korean peninsula drew Japan further away from China, as Japan served as a vital rear area for American military activities in Korea. The role was clearly an uncomfortable one for Japan, and one which Japanese leaders tried to scale down. Prime Minister Yoshida Shigeru, for instance, rejected Dulles' initial proposal for a full-scale rearmament of Japan. With the signing of the Security Treaty, Japan fell into line. Japanese Prime Minister Yoshida came under immediate and sustained US pressure to establish diplomatic relations with Taiwan. On the day the Security Treaty was signed, Japan also signed a bilateral peace treaty with Taiwan.

As a result of these events, it was virtually impossible for the Japanese government to directly engage in trade relations with the Chinese mainland. Economic relations slid into the realm of private

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<sup>29</sup> Unless otherwise noted, this section is based on Dong Dong Zhang, *China's Relations with Japan in an Era of Economic Liberalization* (New York: Nova Science Publishers, Inc., Commack, 1998), 57–61 and Chae-Jin Lee, *China and Japan: New Economic Diplomacy* (Stanford University: Hoover Institute Press, 1984), 1–17.

<sup>30</sup> John Dower elaborates on this point: "Westerners worried...that Japan's Oriental identity would, in the end, prove decisive and lead to some kind of accommodation between the Japanese and the Chinese Communists." John W. Dower, *War Without Mercy: Race and Power in the Pacific War* (New York: Pantheon Books, 1986), 310.

<sup>31</sup> John Foster Dulles as cited by John W. Dower, *War Without Mercy*, 311.

agreements.<sup>32</sup> Initial trade figures were minuscule due to the virtual collapse of the Japanese economy and the civil war in China. In 1950, upon the founding of the PRC, total bilateral trade stood at a mere US\$4.7 million, consisting primarily of Chinese bean, coal, iron, and salt exports to Japan, and Japanese exports of steel, engines and pumps to China. Four privately negotiated trade agreements, however, dramatically increased the level of bilateral commercial relations—the first in June 1952, which established a barter-based trade, and three others in October 1953, September 1955, and March 1958. By 1953, total bilateral trade had increased to US\$34 million. Trade increased further to US\$60 million by 1954, US\$109 million by 1955, and US\$151 million by 1956. Increased trade interaction was accompanied by exchanges of industrial exhibits, economic delegations, and private agreements on fisheries and cultural programs.

Already in the 1950s, both Japan and China strove to move these agreements into the realm of an official relationship, but their efforts ran afoul of the Cold War order. The 1953 and 1955 agreements, for example, called for an exchange of resident trade missions, and also for the provision of diplomatic privileges to trade representatives, but diplomatic exchange did not take place. Prime Minister Hatoyama Ichiro "felt constrained ... by the Eisenhower administration's rigid anti-Beijing attitude as exemplified by the US–Taiwan security treaty (1954) and the congressional resolution on Formosa (1955)."<sup>33</sup> As a result, the Japanese government refused to allow the establishment of a Chinese resident trade mission in Tokyo. Matters took a turn for the worse in 1957, with the inauguration of Prime Minister Kishi Nobusuke—the former director of the General Affairs Board of Manchukuo and Minister of Commerce and Industry in Tojo Hideki's wartime cabinet. Beijing took particular exception to Kishi's vocal anti-Beijing stance and visit to Taiwan, and Chinese premier Zhou Enlai cooperated with the Japan Socialist Party in denouncing Kishi's position. Despite the official anti-PRC stance, Kishi's administration supported the provisions of the fourth private agreement, which called for the establishment of Chinese resident trade missions and granting semi-diplomatic status to trade personnel. However, mounting pressure from Washington and Taipei forced the Kishi administration to back down, and although a trade agreement was eventually signed, it did not include these key provisions. Angered by this outcome, China seized on a flag incident in May 1958—two Japanese youths ripped down a Chinese flag at a stamp show in a Nagasaki department store<sup>34</sup>—and suspended all economic and cultural relations with Japan. Bilateral trade in 1959 experienced a dramatic 78.5 percent drop and political relations fell to a post-war low.

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<sup>32</sup> Bilateral trade was restricted to private level contacts, although the structure of the Chinese foreign trade mechanism meant some Chinese government involvement.

<sup>33</sup> Lee, *China and Japan: New Economic Diplomacy*, 3.

<sup>34</sup> For more on the Nagasaki flag incident see R. K. Jain, *China and Japan 1949–1980* (Oxford: Martin Robertson, 1981), 36.

In little more than a year, however, China and Japan resumed the policy of unofficial economic relations. Several important events precipitated this development. In Japan, a new Prime Minister, Ikeda Hayato, softened Kishi's Cold War rhetoric and elevated international economic interaction to a national priority. In China, the failure of Mao's Great Leap Forward caused severe food shortages, forcing China to re-evaluate its policy of self-reliance. At the same time, China's relationship with its Soviet advisors deteriorated dramatically, leading to the Sino-Soviet split in 1960. With the cessation of Soviet aid, China desperately needed to import complete industrial plants, as well as machinery, steel, and chemical fertilizers. The downturn in Soviet relations strengthened the hand of moderate Chinese leaders Zhou Enlai, Chen Yun, and Deng Xiaoping, and opened the way to renewed relations with Japan. In August of 1960, Chinese Premier Zhou Enlai introduced the concept of "friendship trade," a system by which Sino-Japanese trade relations would be limited to particular Japanese companies that the Chinese designated as "friendly." The number of "friendly companies" grew quickly from a mere eleven in 1960 to 190 by 1962.

By September of 1962, the inability of "friendly companies" to meet China's growing import needs led to the initiation of a new form of trading relations: "memorandum trade" was Zhou Enlai's brain-child. In September 1962, Zhou invited senior Liberal Democratic Party (LDP) statesman, Matsumura Kenzo, to Beijing, and together they devised a trading system explicitly geared towards the eventual normalization of economic and diplomatic relations. Memorandum trade covered the period from 1963 to 1967, and projected an annual trade turnover of US\$100 million. Powerful LDP members sponsored the plan, elevating the system to semi-official status. Political relations improved accordingly. The PRC established its resident trade mission in Tokyo, and Japan's Export-Import Bank (Ex-Im Bank) extended financial support for the China trade. Within a year, however, combined pressure from Washington and Taipei forced the Japanese government to discontinue Ex-Im Bank financing. Japanese private banks quickly took the initiative, extending long-term credit to China for plant construction. In this way, bilateral trade continued to grow, reaching a total of US\$621 million in 1965.

In the mid-1960s, however, several events worked against the continued improvement of the relationship. Japan's new Prime Minister, Sato Eisaku, (elected in November 1964) took a strong anti-China stance, undertaking state visits to Taiwan and the United States, which inflamed Chinese fears of reviving Japanese militarism. In China itself, the Great Proletarian Cultural Revolution came into full swing, and domestic political movements overshadowed any interest in foreign relations. With the onslaught of the Cultural Revolution in 1966, Sino-Japanese trade deteriorated rapidly. As Lee describes: "Japanese trade negotiators were required to praise the Cultural Revolution, to study the little red book of Chairman Mao's quotations, and to listen to prolonged political lectures delivered by their Chinese

counterparts."<sup>35</sup> Not until the fever of the Cultural Revolution abated, could the course towards normalization of Sino–Japanese relations resume.

## **JAPAN STEPS OUT: 1972–1978**

*International isolation leads to economic backwardness, causing political and military humiliation by foreign powers.*

—A popular slogan in China in the 1970s

On 29 September 1972, China and Japan formally established diplomatic relations, opening the way for a new paradigm in Sino–Japanese relations. Grounded in the trading relationship, bilateral relations were designed to both support China's economic modernization and improve Japan's economic security. Three factors played a critical role in facilitating this historic event. The first was the resignation—under intense pressure from Beijing—of pro-Taiwan Prime Minister Sato Eisaku,<sup>36</sup> and the rise of powerful pro-PRC Prime Minister Tanaka Kakuei in July 1972. The second was the ebb of the destructive forces of the Chinese Cultural Revolution, and the return to a semblance of domestic normalcy in China proper. The final and most critical factor, was the rapprochement between the United States and China. Henry Kissinger's visit to Beijing in July 1971, closely followed by Richard Nixon's historic trip to China in February 1972, signaled the beginning of this movement. Seizing the diplomatic initiative, Prime Minister Tanaka formally established diplomatic relations in September of that year. It would be nearly seven years before the United States followed suit. Tanaka deftly negotiated the Taiwan issue, officially terminating diplomatic relations with Taiwan but obtaining Beijing's agreement that Japan would continue economic and other non-diplomatic relations with Taipei. Japanese and Taiwanese trade offices served as *de facto* political representatives—in the same way that the PRC trade missions had prior to diplomatic normalization. This ingenious arrangement served as a model for the United States as well as for other countries as they followed Japan's lead in switching official political allegiance from Taipei to Beijing.

Normalization had an electric effect on economic relations between China and Japan, freeing them at last from the boundaries of the unofficial realm. In Tokyo, the Japan–China Economic Association was formed in November 1972. With partial government funding as well as extensive private sector support, this association worked to support increased private-level economic interaction. The

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<sup>35</sup> Lee, *China and Japan: New Economic Diplomacy*, 7.

<sup>36</sup> See Christopher Howe ed., *China and Japan: History, Trends, and Prospects* (Oxford: Clarendon Press, 1996), 14.

Japanese government removed all restrictions on Ex-Im Bank credit financing, and Chinese and Japanese governments signed agreements on trade, reducing tariff barriers by one third (January 1974), civil aviation (April 1974), maritime transport (November 1974), and fisheries (August 1975). Minister of International Trade and Industry, Nakasone Yasuhiro, and Foreign Minister Ohira Masayoshi, played key roles in facilitating these agreements. As a result, bilateral trade increased three-fold between 1972 and 1975, reaching a total of nearly US\$3.8 million, and Japan became China's number one trading partner. Japanese exports during this period consisted of steel, machinery and equipment, chemicals, and synthetic fibers. In turn, China exported crude oil, foodstuffs, minerals, and other primary products. (See Graphs 1 and 2 on pages 56 and 57.)

This intensification of trading relations served important economic and political interests in both countries. In Japan, the opening of China rekindled the dream of China's enormous untapped market potential, particularly among those Japanese who had experience in China before and during the war and who now held positions of power in Japan. In addition, the oil shocks of the 1970s threatened Japan's supply of energy and raw material and forced Japan to diversify its import and export markets. The Chinese energy market looked increasingly attractive. Moreover, the oil shocks accelerated economic restructuring in Japan. As Zhang explains, in Japan:

The private sector, with public sector backing, pushed for rationalization at a firm level, and pursued a high-value added, high technology, low-energy using manufacturing in response to uncertainty in world energy markets. Industries like textiles, steel, petrochemicals and shipbuilding, which relied heavily on intensive energy consumption or on a large amount of labour, had already encountered structural decline, and overseas relocation had begun. China's modernization program provided a good opportunity for Japanese exports.<sup>37</sup>

In short, Japan's interest in plant and technology exports to China increased, just as the interest in energy imports began to grow.

In China, Mao's death in 1976 and the subsequent purge of the Gang of Four, allowed Chinese Party Chairman Hua Guofeng to reinstate Zhou Enlai's "Four Modernizations Program" in an effort to catch up with the industrialized world as quickly as possible. China was eager to acquire Japanese technology and looked to petroleum exports to finance that acquisition. Japan's steel industry in particular supported this initiative and, in order to increase steel exports to China, persuaded the Japanese petroleum refining industry to accommodate larger imports from China. As Zhang points out: "Put simply, Japan wished to

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<sup>37</sup> Zhang, *China's Relations with Japan in an Era of Economic Liberalization*, 64.

sell advanced technology and China wanted to buy it. China had the resources, including crude oil and coal, and Japan needed them."<sup>38</sup>

On 16 February 1978, Liu Xiwen, China's Vice-Minister of Foreign Trade, and Inayama, Vice President of Japan's business association, *Keidanren*, signed a Long Term Trade Agreement (LTTA) designed to cover the period from 1978 through 1985.<sup>39</sup> The agreement built on the growing complementarities between the two economies and also addressed some of the difficulties that had arisen in the trading relationship. The key provision of the agreement was the supply of China's energy resources in exchange for imports of advanced technological goods. In this way, the LTTA linked the economic relationship between Japan and China to China's economic modernization and to Japan's economic security. A special arrangement provided a deferred payment method for China to alleviate difficulties experienced by China's hard currency shortage. By building on these complementarities, the LTTA addressed the growing problem of China's trade deficit with Japan. Indeed, between 1972 and 1975, the Chinese trade deficit swelled from US\$118 million to US\$728 million. This had proven particularly problematic during the brief ascendancy of the Gang of Four from late 1975 through September 1976, and Japanese leaders were sensitive to the potential political repercussions of the economic imbalance. Accordingly, long-term balanced trade became one of the principle components of the LTTA. The signing of the LTTA promoted a positive climate and within this context, and also in recognition of the fact that both China and Japan perceived the Soviet Union as their common strategic threat, the two countries concluded the Treaty of Peace and Friendship, signed by the respective foreign ministers in Beijing on 12 August 1978.

The 1970s witnessed phenomenal changes in the China–Japan economic and political relationship. In the political realm, diplomatic relations were established and a peace treaty was signed, while in economics, the LTTA embodied a bold vision of economic partnership based on three key assumptions: China's ability to continue high levels of energy exports and Japan's ability to absorb those exports; a continuing high Chinese demand for technological and capital imports from Japan; and, the viability of Chinese domestic institutional structures designed to promote rapid industrialization on the Mainland, as well as Japan's ability to continue complete plant exports to support that industrial drive. It was amid these arrangements that Deng Xiaoping came to power in 1979 and initiated China's Open-Door Policy, pointing the way towards China's economic reform, the rise of China to regional power status, and the explosion of economic relations between Mainland China and Japan.

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<sup>38</sup> *Ibid.*, 65.

<sup>39</sup> *Nitchu boeki antei kakudai e no michisuji* [The road towards the stable expansion of Japan–China trade], (Tokyo: Nitchu keizai kyokai, 1978).

## **JAPAN TAKES THE LEAD: 1979–1999**

In the late 1970s, Deng Xiaoping consolidated political power in China and initiated an "Open Door" policy. China's relations with Japan were transformed. The new policy fostered extensive interaction with the outside world, opened China to foreign capital, and promoted the export of Chinese products. As a result, China–Japan bilateral trade grew more than tenfold between 1979 and 1999. Throughout this period, China's booming economy has meant that the PRC's importance to Japan as a trading partner and destination for foreign direct investment (FDI) has continued to increase. By 1992, China was Japan's fifth largest trading partner, and a year later, China overtook Germany, Taiwan, and South Korea, to become Japan's second largest trading partner after the United States.<sup>40</sup>

Chinese and Japanese economies remain highly complementary, particularly in the area of technological and capital goods. Over time, however, the composition of Sino–Japanese trade has changed: manufacturing products have come to dominate the bilateral trading relationship as China's energy exports have been replaced by more labor-intensive products. Particularly in the 1990s, FDI became an important feature of the relationship, and actual accumulated (as opposed to contracted) Japanese FDI in China has surpassed US\$10 billion. This has facilitated industrial restructuring in both countries and contributed to the transformation of the bilateral trade relationship. According to a 1995 MITI survey, 29 percent of Japanese production in China is exported back to Japan. This figure is falling, however, as China's domestic economic development presents greater opportunities for consumption in the Chinese market itself. Throughout the 1980s, Japan enjoyed a trade surplus with China, but this imbalance stabilized in the late 1980s, and reversed in China's favor in the early 1990s. By the late 1990s, however, the balance has again tipped in Japan's favor.

An important economic trend during this period has been the diversification of China's international economic relations—due to both economic and political imperatives. Since the mid-1980s when the Chinese government became concerned about the economy's perceived over-dependence on Japan, Beijing has actively sought to diversify its overseas markets. China's improved contacts with a range of international markets gave it that opportunity. Indeed, the booming economy has meant an expansion of trade relations not only with Japan, but with other Asian countries and notably with the United States. As a result, although the overall volume of Sino–Japanese trade has increased dramatically, Japan's importance as a trading partner has declined over the years. At the time of China's opening in the late 1970s, trade with Japan accounted for more than 25 percent of China's total trade turnover; this increased to 30 in the mid-1980s, but fell quickly by the end of the decade. In the early

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<sup>40</sup> Yong Deng, "Chinese Relations with Japan: Implications for Asia-Pacific Regionalism," *Pacific Affairs* Vol. 70, No. 3 (Fall 1997) 379.

1990s Japan's share rose again and, by 1999, stood at 18 percent. In the 1990s, since China normalized relations with South Korea and facilitated trade between Taiwan and the Chinese Mainland, Japanese traders have increasingly competed with Korean, Taiwanese, as well as Hong Kong business communities. Another important aspect of China's foreign economic diversification has been the PRC's entry into a range of international organizations—the United Nations in 1971, the International Monetary Fund in 1980, the World Bank in 1980, and soon, the World Trade Organization.

**Table 1: China's Top Trading Partners (\$US 100m / %):  
Japan in First Place, the United States Moves Up**

RANK/ YEAR	1	2	3	4	5	6	7
<b>1997</b>	<b>Japan</b> 60.8 18.7%	Hong Kong 50.8 15.6%	<b>USA</b> 49 15.1%	Korea 24 7.4%	Taiwan 19.8 6.1%	Germany 12.7 3.9%	Singapore 8.8 2.7%
<b>1998</b>	<b>Japan</b> 57.9 17.9%	<b>USA</b> 54.9 16.9%	Hong Kong 45.4 14%	Korea 21.3 6.6%	Taiwan 20.5 6.3%	Germany 14.3 4.4%	Singapore 8.2 2.5%
<b>1999</b>	<b>Japan</b> 66.2 18.4%	<b>USA</b> 61.4 17%	Hong Kong 43.8 12.1%	Korea 25 6.9%	Taiwan 23.4 6.5%	Germany 16.1 4.5%	Singapore 8.6 2.4%
<b>2000(1-5)</b> <b>\$US10</b> <b>thousand</b>	<b>Japan</b> 3085164 17.7%	<b>USA</b> 2723887 15.6%	Hong Kong 2012472 11.6%	Korea 1284285 7.4%	Taiwan 1129897 6.5%	Germany 756847 4.3%	Singapore 402603 2.3%

Source: Calculated from China Ministry of Foreign Trade and Economic Cooperation (MOFTEC) figures.

**Table 2: Japan's Top Trading Partners (\$USb / %):  
China in Second Place**

RANK/ YEAR	1	2	3	4	5	6	7
<b>1997</b>	USA 194.3 25.4%	<b>China</b> 64 8.4%	Korea 41 5.3%	Taiwan 40 5.27%	Germany 30.7 4%	Hong Kong 29.7 3.9%	Singapore 2.6 3.4%
<b>1998</b>	USA 185 27.8%	<b>China</b> 57 8.6%	Taiwan 35.7 5.6%	Germany 29.7 4.5%	Korea 27.3 4.1%	Hong Kong 24.2 4.1%	Singapore 19.4 2.9%
<b>1999</b>	USA 195.6 26.9%	<b>China</b> 66.3 9.1%	Taiwan 41.6 5.7%	Korea 39 5.3%	Germany 30.2 4.1%	Hong Kong 24 3.3%	Singapore 21.7 3%

Source: Calculated from Japan Ministry of Finance figures.

Over the twenty years since Deng opened China to the outside world, Sino–Japanese trade has undergone significant qualitative change. Whereas Chinese exports in the 1970s focused on raw materials such as oil and coal, by the 1980s, Chinese exports moved into textiles, clothing, and other labor-intensive products. The Japanese market has been particularly hospitable to Chinese textiles as Japan does not restrict imports under the Multinational Fiber Agreement. By the 1990s,

China continues to provide Japan with some raw and semi-processed materials but primarily it exports growing quantities of low value-added manufactures of increasing sophistication in exchange for financing and high technology products and equipment, as in the construction of Shanghai's vast Baoshan steel complex. Exports to Japan have changed in step with the global shift in China's exports as the share of manufactures increased from 49.5 percent in 1985, to 81.8 percent in 1993.<sup>41</sup>

Bilateral aid has been another critical facet of Japan's growing relationship with China. In December 1979, Japanese Prime Minister Ohira Masayoshi announced the first Overseas Development Assistance (ODA) package for China, geared primarily to the development of China's steel industry. Since that time, ODA has become an important symbol of the bilateral friendship. Indeed, Japan was the first country to provide bilateral aid to the PRC, and with four major assistance packages totaling over US\$13 billion, it has provided more than three quarters of China's total bilateral loans. Japanese ODA consists of low-interest yen loans (the vast majority of ODA), as well as technical cooperation and grant assistance. In 1987, China overtook Indonesia to become Japan's leading destination for ODA in terms of net yen loan disbursement and, since 1993, has been the leader in terms of total funds received.<sup>42</sup>

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<sup>41</sup> Mark Selden, "China, Japan and the Regional Political Economy of East Asia, 1945–1995," in Peter J. Katzenstein and Takashi Shiraiishi, eds., *Network Power: Japan and Asia* (Cornell University Press, 1997), 317.

<sup>42</sup> Wakisaka Noriyuki, "Japanese Development Cooperation for China," in Kokubun Ryosei, ed., *Challenges for China–Japan–US Cooperation* (Japan Center for International Exchange, 1998), 117.

**Table 3: China's top sources of ODA (\$USm)**

YEAR/ RANK	1	2	3	4	5
<b>1995</b>	<b>JAPAN</b> 1380.2 (54.5%)	GERMANY 684.1	FRANCE 91.2	AUSTRIA 66.2	SPAIN 56
<b>1996</b>	<b>JAPAN</b> 861.7 (51.6%)	GERMANY 461.1	FRANCE 97.2	UK 57.1	CANADA 38.4
<b>1997</b>	<b>JAPAN</b> 576.9 (47%)	GERMANY 381.9	FRANCE 50.1	UK 46.2	AUSTRALIA 36

Source: Calculated from Japan Ministry of Foreign Affairs figures.

**Table 4: Top Recipients of Japan's ODA (\$USm / %)**

YEAR/RANK	1	2	3
<b>1996</b>	Indonesia 965.53 (11.6%)	<b>China</b> 861.73 (10.3%)	Thailand 644 (7.7%)
<b>1997</b>	<b>China</b> 576.86 (8.7%)	Indonesia 496.86 (7.5%)	India 491.8 (7.4%)
<b>1998</b>	<b>China</b> 1158.16 (13.5%)	Indonesia 828.47 (9.6%)	Thailand 558.42 (6.5%)

Source: Calculated from Japan Ministry of Foreign Affairs figures.

Finally, and particularly since the early 1990s, foreign direct investment (FDI) has come to play an important role in bilateral economic relations. Japanese FDI was slow to come to China. In the 1980s Chinese restrictions on FDI, as well as insufficient institutional reform in China, discouraged Japanese investment. As a result, by the end of 1989, total Japanese investment, on a contracted basis, stood at a mere US\$2 billion, less than 6 percent of total FDI in China, and less than 1 percent of Japan's total outgoing FDI in the 1980s. The situation began to change in 1991, when Japan's investments reached US\$3.39 billion and Japan stood in fourth place among China's investors, after Hong Kong/Macao, the United States, and Taiwan. Japanese FDI in China continued to grow in the 1990s in response to domestic changes in both countries. In Japan, the realignment of the yen against the dollar led to economic restructuring, and Japanese firms began to invest more heavily overseas. The stronger yen increased the attractiveness of overseas production, and the prospect of a cheap labor supply in China was

particularly alluring. In China, improvements in the investment climate served to reassure Japanese investors. An important step was taken with the signing of the Investment Protection Pact in August 1988 during Prime Minister Takeshita Noburu's visit to Beijing. The pact provided Japanese firms with most favored nation treatment, guaranteed compensation if Japanese firms investing in China were nationalized, and accorded national treatment (i.e. the same status as Chinese state-owned enterprises) to Japanese firms that invested in China. In the wake of this agreement, China and Japan established investment promotion organizations. In Japan, the Japan–China Investment Promotion Organization was officially established on 23 March 1990, while in China, the China–Japan Investment Promotion Committee was set up on 7 June 1990. These moves helped to improve China's investment environment and raise confidence levels among Japanese investors.

**Table 5: China's Top Sources of FDI\* (percentage / \$US)**

<b>RANK/ YEAR</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
<b>1985</b>	Hong Kong 48.9% (955.7m)	USA 18.3% (357.2m)	<b>Japan</b> <b>16.1%</b> <b>(315m)</b>				
<b>1985- 1996</b>	Hong Kong & Macao 58%	Taiwan 8.4%	<b>Japan</b> <b>8%</b>	USA 7.9%	Korea 2.5%	UK 1.9%	France 0.7%
<b>1997</b>	Hong Kong 45.6% (20.6b)	Taiwan 7.3% (3.3b)	<b>Japan</b> <b>9.6%</b> <b>(4.3b)</b>	USA 7.2% (3.2b)	Singapore 5.8% (2.6b)	Korea 4.7% (2.1b)	UK 4.1% (1.9b)
<b>1998</b>	Hong Kong 40.7% (18.5b)	Virgin Is. 8.9% (4b)	USA 8.6% (3.9b)	Singapore 7.5% (3.4b)	<b>Japan</b> <b>7.47%</b> <b>(3.4b)</b>	Taiwan 6.4% (2.9b)	Korea 4% (1.8b)

\*utilized FDI

Source: China Statistical Yearbook, various years.

## Japan as Big Brother

As the Cold War system dissolves, Japan has sought to carve out a new political role for itself—one at least somewhat commensurate with its powerful economic status. One way in which Japan has attempted to reconceptualize itself has been as a leader in a community of Asian nations. Nowhere is this more evident than in its relationship with China. Building on its own economic power, as well as its economic relationship with China, Japan has played the role of "big brother"—particularly with regard to Chinese membership in the international community. In November 1979, for example, Japan successfully persuaded the leading OECD Development Assistance Committee members to admit China under the

category of "developing country."<sup>43</sup> Japan also actively supported China's membership in the World Bank and the International Monetary Fund, and played a leading role in persuading the other G-7 countries to renew World Bank lending after Tiananmen. During the 1987–1993 Uruguay Round of the GATT negotiations, Japan supported China's participation as an observer, and Japan has supported China's bid to join the World Trade Organization.<sup>44</sup> Japanese leaders have also expressed support for including China in Asian multilateral fora: Japan supported Chinese membership in the Asia–Pacific Economic Cooperation forum (APEC) at its inception in 1989, and facilitated China's entry in 1991. Japanese leaders believe this strategy will help China's economy to develop in accordance with international norms and promote stability throughout the region. As one prominent analyst of Sino–Japanese relations wrote: "Integrating the PRC is an important motivating factor in Japanese support for establishing multilateral economic and political/security institutions in the Asia–Pacific."<sup>45</sup>

## High-Level Visits

The burgeoning economic relationship between Japan and China has brought with it a series of important high-level meetings designed both to facilitate future economic interaction and smooth the political relationship. Indeed, virtually all high-level interaction addresses both economic and political concerns. In May 1982, Premier Zhao Ziyang visited Tokyo and introduced China's "three principles" designed to govern bilateral relations: peace and friendship, equality and mutual benefit, and long-term stability. In September of that same year, Prime Minister Suzuki Zenko returned the visit and traveled to Beijing, and in November 1983, Chinese Communist Party Secretary Hu Yaobang came to Tokyo. Hu added a fourth "principle" to Zhao's original three—"mutual trust"—and the two sides agreed to establish the Twenty-First Century Committee, ushering Sino–Japanese relations into the new millennium. In 1984, Prime Minister Nakasone visited Beijing where he announced a plan for the second yen loan program—470 billion yen over the 1984–89 period—and inaugurated the Twenty-First Century Committee. He paid another visit to Beijing in 1986 to begin preparations for the third yen loan program. In 1988, Prime Minister Takeshita Noboru signed the Investment Promotion Pact in Beijing, and

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<sup>43</sup> Yong Deng, "Chinese Relations with Japan," 375.

<sup>44</sup> John R. Faust and Judith F. Kornberg, *China in World Politics* (Boulder, London: Lynne Rienner Publishers, 1995), 191.

<sup>45</sup> Robert A. Manning, "Burdens of the Past. Dilemma of the Future: Sino–Japanese Relations in the Emerging International System," *The Washington Quarterly* Vol. 17 (Spring 1994) 48, cited in Yong Deng, 383.

announced the plan for the third yen loan—810 billion yen to cover the 1990–1995 period. Chinese Prime Minister Li Peng visited Tokyo in April 1989.<sup>46</sup>

High-level meetings have put primacy on preserving healthy economic relations and stability in the international political arena. To this end, Japan has adopted a strictly non-confrontational (and largely uncritical) attitude towards China. Nowhere is this more evident than in Japan's reaction to the 4 June "incident" in 1989, when the Chinese government shocked the world by using military force to put down massive student demonstrations in Tiananmen Square. These events had an immediate effect on Japanese views of the People's Republic. A survey conducted in Japan by Jiji Press showed that the percentage of respondents who said that China was a country they liked dropped from 17.3 percent in May to 4.9 percent in June, while the percentage who disliked China rose from 5.4 percent in May to 27.1 percent in June. Japan's official response to 4 June, however, was muted. Indeed, some analysts have argued that the Tiananmen tragedy actually boosted the momentum of the bilateral relationship.<sup>47</sup> Tokyo was clearly reluctant to impose sanctions on China in the wake of the tragedy, but buckled under intense pressure from the United States. At the July 1989 Paris conference, Japan signed the G-7 joint statement condemning the Chinese government for its actions. On that occasion, Japan did, however, successfully argue for the inclusion of a statement on the importance of not isolating China, and for limiting sanctions to the ones already in place. In December 1989, following a visit to Beijing by high-ranking US officials, Japan resumed negotiations for the third yen loan package and sent a delegation from the Japanese Association for International Trade Promotion to Beijing. China's leaders did not fail to recognize the gesture. In a speech delivered to the delegates, Deng Xiaoping stated: "At a time when the international monopoly capitalism imposes sanctions on our country, you lead such a big envoy to us. This move is reflective of genuine friendship."<sup>48</sup> In 1990, Japan re-affirmed its yen loan package to China at the Houston G-7 summit.

After Tiananmen, Japanese Prime Minister Takeshita Kaifu became the first G-7 leader to visit the PRC. During his 10–13 August 1991 visit, Kaifu expressed sympathy for China's international plight, and disclosed the details of the third yen loan package. In April 1992, Jiang Zemin returned the visit and traveled to Japan to mark the occasion of the twentieth anniversary of Sino–Japanese diplomatic normalization. At that time the Chinese leader extended an invitation to Japanese Emperor Akihito, a move which received the endorsement of Japanese Prime Minister Miyazawa Kiichi. In October 1992,

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<sup>46</sup> This summary is based on the account by Takagi Seiichiro, "In Search of a Sustainable Equal Partnership: Japan–China Relations in the Post-Cold-War Era," *Japan Review of International Affairs* (Spring 1999) 17–38.

<sup>47</sup> Yong Deng, "Chinese Relations with Japan."

<sup>48</sup> Deng Xiaoping, *Selected Works*, 347, cited in Yong Deng, "Chinese Relations with Japan," 380.

Emperor Akihito became the first Japanese emperor to visit China in the two thousand year history of the monarchy. Since that time, high-level contacts have continued. Notable visits include Prime Minister Murayama's visit to Beijing in May 1995, Prime Minister Hashimoto's visit to Beijing in September 1997 to discuss revision of Japan's defense cooperation guidelines, Prime Minister Li Peng's visit to Japan in November 1997, Jiang Zemin's visit to Japan in November 1998, and Prime Minister Obuchi Keizo's visit to China in July 1999.

## **Economic Discord**

Economic interaction has not been trouble free, but a combination of skillful high-level diplomacy together with an underlying commitment by both parties to the economic relationship has mitigated conflict. Trade friction began in the early years of the Open Door economic relationship, when Chinese domestic economic restructuring led to the unilateral cancellation of a series of contracts in 1979–1981, causing dismay in the Japanese business community. In the mid-1980s, as China began to decentralize its foreign trade system and the demand for Japanese imports skyrocketed, a huge trade imbalance developed in Japan's favor, raising a clamor in China that Japan was again embarking on the path of "economic imperialism." (In a telling resurrection of historical fears, Chinese demonstrators resurrected the rhetoric of their predecessors who raised the specter of Japanese imperialism in the 1920s.) Similarly, low levels of Japanese FDI were a sore point for China in the 1980s, leading to accusations that Japan was simply using the mainland as an economic colony, but was unwilling to invest in China's development itself, or to transfer valuable technology to the PRC. Japan took such complaints seriously. Achieving a trade balance became a stated Japanese goal, while the Investment Protection Act of 1988 was specifically designed to facilitate larger Japanese investment on the mainland.

On the Japanese side, as China began to increase export of labor-intensive products in the early 1990s, an influx of Chinese textiles into the Japanese market led the Japanese government to consider invoking the Multinational Fiber Agreement to place quantitative restrictions on Chinese textile imports. China responded promptly by voluntarily restricting exports. In another case, the Japanese government determined that China had been exporting ferrosilico-manganate, a component used in steel production, at inappropriately low prices, and imposed an antidumping tax. Growing Japanese investment in the PRC has also revealed differences in Japanese and Chinese business practices; at issue are business etiquette, the value of contracts, patterns of decision making, and life-styles. Beijing and Tokyo have further clashed on a number of issues including the question of intellectual property rights, but none of these disagreements have seriously threatened economic interaction or the political relationship.

Finally, the very success of Sino–Japanese economic cooperation, together with China's rapid economic development, has raised concerns regarding economic competition. Indeed, while China's

economy blossoms, Japan's is comparatively stagnant, and some Japanese leaders have grown concerned about the emergence of a "Greater Chinese Economic Empire" which could challenge Japan's regional role. It is in part to deal with this possibility that Japan's leaders have consistently sought to maintain both economic and political relations with their powerful neighbor on an even keel.

## **The Legacy of History**

Without a doubt, the most sore point in current Sino-Japanese relations is the question of history—that of Japan's war in China. On this one issue, Japan's "even-keel" policy falls down. China is dissatisfied with Japan's recalcitrance. Japan has grown weary of the chorus of complaints, and has come to suspect that China is forcing the issue in an effort to secure greater economic concessions. Both sides have made valid points. Japan's apologies often seem half-hearted. At the same time, Japan's active economic engagement of China goes beyond current economic and political imperative. Important members of Japan's political and business elite feel a moral obligation to assist in the birthing of China's new economy, as recompense for the pain that Japan inflicted on China during the war.<sup>49</sup> This attitude is notably evident among those who actually lived in China during the Japanese occupation. As a result, China's numerous demands for further apologies, while they have raised hackles in Tokyo, have not impinged on the economic relationship or seriously threatened the political one. Perhaps for this reason, both countries have let the issue ride, without forcing an immediate resolution.

Trouble over the historical record first broke out in the summer of 1982 in a dispute over Japanese textbooks. According to Japanese and Chinese press reports of the time, Japan's Ministry of Education instructed history textbook authors to delete, reword, or tone down passages referring to Japan's wartime record. A series of negotiations and back-trackings brought the furor to a close by the time Prime Minister Suzuki visited Beijing in September to commemorate the tenth anniversary of diplomatic normalization, but the debate on Japanese militarism and the question of Japan's responsibility in the Pacific war were just beginning. Over the course of this debate, the "standard" historical account—that accepted by Chinese, Western, and many Japanese scholars—has been challenged by Liberal Democratic Party politicians, right-wing scholars, and journalists in Japan. According to their account, Japan's war was not a war of aggression, but rather one of liberation in which Japan fought to free Asia from the noose of Western imperialism. Proponents of this account question the authenticity of historical events—the Nanjing Massacre is a particular favorite—as well as the figures for the number of Chinese

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<sup>49</sup> Japan Ministry of Foreign Affairs officials and business executives, interviews with author, Tokyo, September 1996–January 1997.

deaths. The myth of Japan's innocence is an enduring one: on 22 January 2000, a Japanese right-wing conference in Osaka dubbed Nanjing "the biggest myth in the 20<sup>th</sup> century."<sup>50</sup>

Other events have fanned the flames of historical controversy. In August 1985, Japanese Prime Minister Nakasone paid an official of the Yasukuni Shrine—Japan's memorial to the war dead, including war criminals. The event sparked student protests in China. In 1986, the textbook issue arose again when an ultra-nationalist Japanese group produced a history textbook propounding a "revisionist" history.<sup>51</sup> In 1987, a dispute over ownership rights to a Kyoto dormitory again brought the history issue to the fore. Controversy flared once more in 1996, when Prime Minister Hashimoto eschewed the regular practice of visiting the Yasukuni Shrine on 15 August and instead chose to visit on his birthday, 29 July. The same day, China issued a fierce criticism of the visit and conducted a nuclear test; China then immediately announced a moratorium on future tests.

A series of apologies by Japanese leaders has made some progress towards healing the historical wounds. Chief among these have been the Emperor's statement of regret in Beijing in 1992, and Prime Minister Hosokawa Morihiro's unequivocal admission, in July 1993, that Japan's conduct during the war was "aggressive and wrong." On the occasion of the fiftieth anniversary of the end of the Second World War, Prime Minister Murayama issued an apology to the victims of the war. The issue arose again in 1998, after Korean President Kim Dae-jung visited Japan in October and obtained written expression of Japan's "remorse and apology." At a China–Japan summit meeting in Tokyo later that year, Jiang Zemin demanded a similar written statement. The Japanese side demurred, and although Prime Minister Obuchi verbally expressed "remorse and apology," the eventual document only stated that Japan accepts "responsibility for the serious distress and damages caused to the Chinese people through its aggression."<sup>52</sup>

Apologies aside, in the 1990s the Japanese government began to take concrete formal steps to address the issue of historical grievances. Chief among these has been the recognition of the problem of chemical weapons left behind in northeast China in the evacuation of Manchukuo. Japan and China have both signed on to the Chemical Weapons Convention, which obligates Japan to clean up remaining weapons stocks in China. In 1990, the Japanese government began an investigation into this matter, and in 1995, Prime Minister Murayama personally recognized this issue and Japan's determination to assist in

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<sup>50</sup> "Japanese Call '37 Massacre a War Myth, Stirring Storm," *New York Times*, 23 January 2000.

<sup>51</sup> Rose, *Interpreting History in Sino-Japanese Relations*, 18.

<sup>52</sup> Quoted in Takagi, "In Search of a Sustainable Equal Partnership," 36.

defusing this threat. In addition, in late 1994, the Japanese government established a foundation using both government and private funding to compensate former "comfort women."

## **Security Issues**

With the end of the Cold War, Japan has struggled to redefine its role in an evolving new security framework. To a large extent, however, Japan's security policy is still dictated by the interests of the United States. Nonetheless, Japan has taken important steps to stake out independent ground and participate in the formulation of a new security order in Asia. These moves have drawn inevitable criticism from Beijing. Tokyo has worked to keep the peace by maintaining the alliance with the United States, stepping up economic cooperation, and muting criticism of China. The combination of these three strategies has proven effective.

The US–Japan Security Treaty continues to dominate security arrangements in Asia. Reaffirmation of the alliance was formalized in a joint Declaration by Prime Minister Hashimoto Ryutaro and President Bill Clinton on 17 April 1996. China has objected. The Chinese government feels that the treaty is geared towards containing China and allows for inappropriate expansion of Japanese military capabilities. China's leaders have also objected to US–Japan cooperation on theatre missile defense (TMD), which the Chinese feel is directed towards themselves. Increases in Japanese military spending since the late 1980s have been another concern of China's leadership, as have the deployment of Japanese peacekeeping troops overseas. These, along with Japan's increasingly active security role within the framework of the US–Japan Security Treaty continue to draw criticism from Beijing. At the same time, (and somewhat paradoxically), China sees the US presence as a buffer against the possible renewal of Japanese militarism.

The timing of the US–Japan reaffirmation was particularly unfortunate from the Chinese point of view because it intersected with a serious confrontation on another burning security issue—Taiwan. In the spring of 1996, China conducted missile exercises in the Taiwan Strait at the time of the first Taiwanese presidential election. The Mainland was particularly concerned that the issue of Taiwanese independence would gain prominence as a result of these elections. In response to the Chinese missile tests, the United States dispatched an aircraft carrier to the region, escalating the potential confrontation. Japan has adopted a somewhat less confrontational policy. In the summer of 1994, Chinese leaders objected strenuously when the Olympic Committee of Asia (OCA) invited Taiwanese President Lee Teng-hui to the Asian games in Hiroshima. In a move geared to placate the Mainland, Japan indicated an unwillingness to issue Lee a visa and the OCA withdrew its invitation. However, Taiwan's vice-premier, Hsu Li-the, did attend the Games, to the great displeasure of Beijing.

On the Japanese side, similar concerns have been voiced over increases in China's military capabilities, including the acquisition of in-flight aircraft refueling technology. Another Japanese concern has been China's increasing territorial assertiveness exemplified by the push into the Spratly Islands and recent clashes over the Senkaku/Diaoyu islands, claimed by both China and Japan. An upsurge of Chinese nationalism in the 1990s has fueled Japanese concerns of an assertive anti-Japanese China. Books such as the much publicized *China that Can Say No*, (*Zhong guo keyi shuo bu*), which depict foreign powers as aggressive and reserve particular mention for Japan, have fanned the flames. Japan's concerns have not, however, had any discernible effect on economic relations, nor have they elicited any vocal criticism of China.

The situation is, however, fluid and evolving. According to Michael Green and Benjamin Self, Japan's China policy has already moved from "commercial liberalism" to "reluctant realism."<sup>53</sup> According to this analysis, the mood in Japan is changing, and with it, Japan's China policy. Japan's younger generation is tired of what they see as endless Chinese demands for apologies, while structural changes in Japan's leadership mean that pro-China politicians no longer control China policy. China's nuclear testing in the mid-1990s generated enmity in Tokyo, and in 1995, Japan canceled yen grants to China. At the same time, Japanese nationalism appears to be on the rise. In 1999, the government granted official status to the national flag and anthem—two symbols intimately connected to Japan's military past. "Research councils" have been established to discuss, among other things, Article 9 of the Japanese constitution, which bans Japan from using force to settle international disputes and pledges Japan to "forever renounce war as a sovereign right."<sup>54</sup> As Japan struggles to find an independent national identity in the post-Cold War context, debates on issues such as this promise to become more pronounced.

## **SINO-JAPANESE RELATIONS IN THE TWENTY-FIRST CENTURY**

What shape will Sino-Japanese relations take in the years to come? Will economic concerns continue to dominate the relationship? Or, as the post-Cold War era unfolds, will security concerns dominate the region? Is it conceivable that Japan and China might once again endure the nightmare of war? Much depends, of course, on the as yet undefined structure of the post-Cold War world, on the reactions of both parties to that structure, and on the actions of other players outside the region. Nonetheless, the history of the Japan-China relationship suggests some answers to these questions.

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<sup>53</sup> Michael J. Green and Benjamin J. Self, "Japan's Changing China Policy: From Commercial Liberalism to Reluctant Realism," *Survival* Vol. 38, No. 2 (Summer 1996) 35–58.

<sup>54</sup> Cited in "Japan: Flying the Flag," *Far Eastern Economic Review*, 12 August 1999.

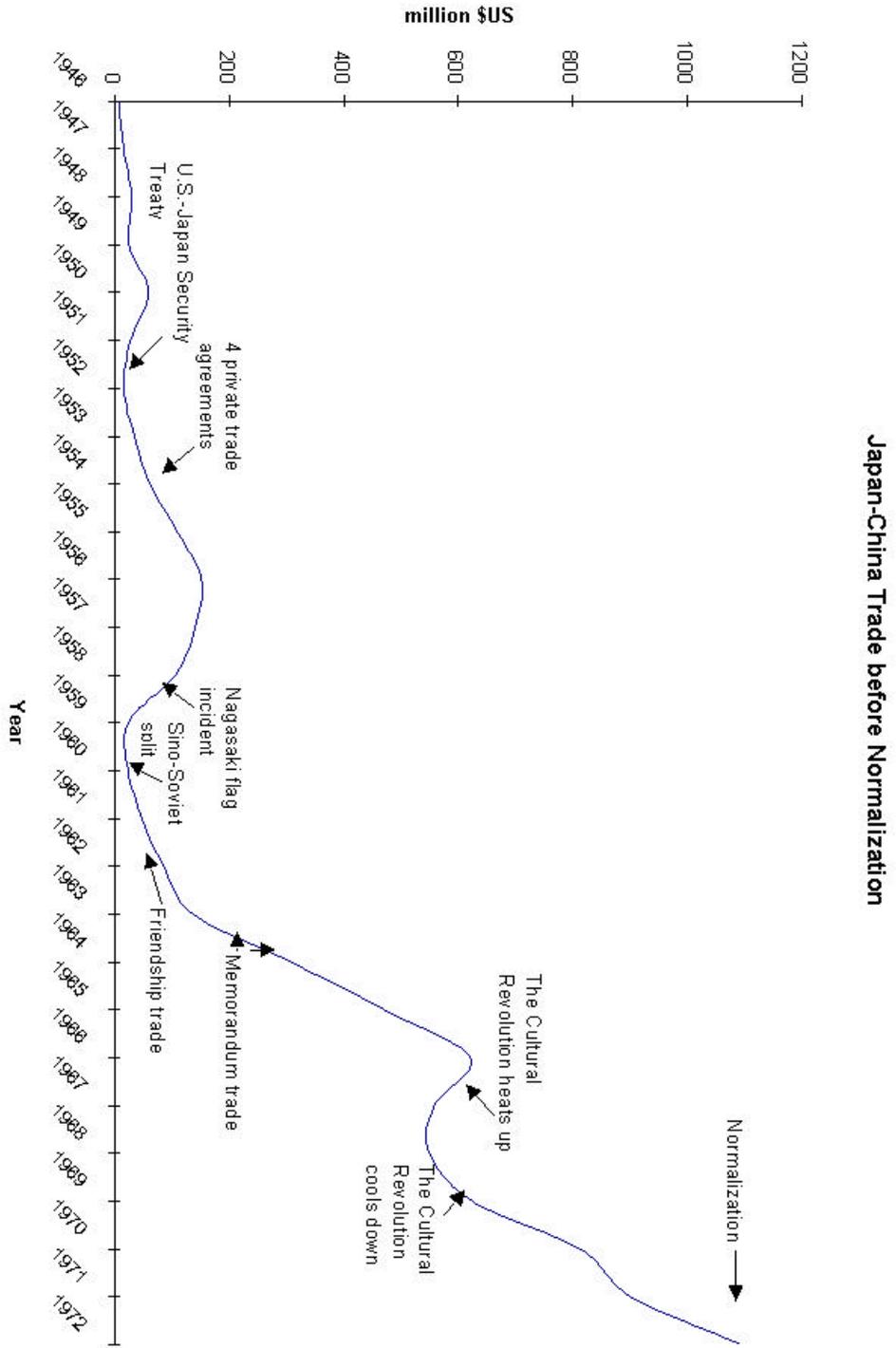
First, economic interaction has, on the whole, proven effective in promoting stable political relations. This essay has argued that over the course of two millennia, Japan and China have developed effective economic mechanisms which facilitate political stability. Economic relations have provided the foundation for any political relationship, they have served to maintain that relationship—sometimes on an informal basis—during times of trouble, and they have paved the way to formal diplomatic relations. Indeed, economic relations have promoted better understanding between the two countries and facilitated the conclusion of important international agreements, such as the Investment Protection Pact of 1988. In recent years, Japan has consistently placed the economic relationship over the political and evinced an aversion to rocking the diplomatic boat. China's 1995 nuclear test is a case in point. While Japan fulfilled its "politically correct" obligations by expressing outrage over the tests, tangible Japanese retaliation was scant: Japan cut off only the grant portion of its ODA to China, a mere fraction of its total ODA package. Similarly, Japan's muted response on 4 June 1989 bespeaks its larger interests in economic synergy and political stability. It is unlikely that this will change in the years to come.

Second, the US role is still critical to the stability of Sino–Japanese relations (and to the Asia–Pacific region at large), but that role is changing and is likely to continue to change in the future. The framework of the US–Japan Security Treaty is still in place, and Japan still very much adheres to that structure. This means that, in the event of hostilities between the United States and China—conceivably over Taiwan—Japan will doubtless follow America's lead. Yet there are rumblings of discontent. Japan, for example, is increasingly unwilling to foot the bill for US forces stationed on its islands, while repeated offenses by US soldiers, including the rape and molestation of young Okinawan girls, have caused rancor. Moreover, the demise of Soviet power, which provided much of the rationale for the US presence, along with recent conciliatory moves between North and South Korea, have left many in Japan feeling that a further drawdown in US forces is in order.

Third, Japan is increasingly ready to take a world leadership role commensurate with its powerful economic status. Although Japanese analysts demur, and American analysts concur, that Japanese foreign policy-makers lack the gumption to take proactive action in the international arena, the historical record suggests otherwise. Tanaka's creative approach to normalization in 1972 is a case in point; it demonstrates that Japan is quite capable of conceiving and implementing creative policies of its own making. Moreover, while deferring to US authority when necessary, Japan has skillfully steered its own path in relations with China, using the economic realm to build confidence and prepare for deepening political relations.

In the end, Japan and China will need to play a greater role in working out regional security arrangements. As China grows more powerful and the Japanese economy becomes more profoundly intertwined with that of its neighbor, both countries are increasingly likely to reach out to each other in

realms beyond the economic to find their own voice in regional security affairs. There is little to suggest a return to the hostilities of the mid-twentieth century. Rather, the process of accommodation will be peaceful. The stability of the entire region depends on it.



Japan-China Trade after Normalization

