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ASIA PROGRAM

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The U.S.–Japan–China Triangle: Who's the Odd Man Out?

ABSTRACT: The three essays in this Special Report explore U.S.–Japan–China triangular relations. Ezra F. Vogel of Harvard University suggests that the United States should encourage Japanese and Chinese economic integration as well as their efforts at reconciliation on the historical issues dividing them. Gilbert Rozman of Princeton University points out two dangerous tendencies in the triangle: an assertive Chinese nationalism that undermines mutual trust and regional cooperation, and an insensitive Japan that fails to build bridges with its neighbors. Ming Wan of George Mason University argues that the United States should continue to collaborate with Japan while simultaneously adopting cooperative measures toward China, to help improve Sino-Japanese relations. All three essays applaud the improvement in Japan–China relations in recent years.

Introduction

Gang Lin

The U.S.–Japan–China triangle is among the most important and complicated trilateral ties in the post–Cold War world. While the U.S.–Japan trade conflict has been largely neutralized by the stagnant Japanese economy, the two countries' political/military cooperation has been enhanced in recent years. The convergent economic and strategic interests of the United States and China are highlighted by China's entry into the World Trade Organization (WTO) and the U.S. war on terrorism, despite the continued strategic competition and dissimilarity of values between the two countries. Sino–Japan relations are still colored by historical animosity and territorial disputes, even though economic cooperation has brought significant benefits to both countries.

How have recent trends and developments influenced each leg of this triangle? What is the impact of history on current relations? What is the balance between globalization led by the United States and regionalism in East Asia? How should one evaluate the U.S. factor

in the political, economic and military dimensions of Sino–Japanese relations? To what degree will the United States continue to play a pivotal position in the tripartite relationship, maintaining good relations with both Japan and China? Is Sino–Japanese antagonism likely to diminish in the years ahead? These and related issues are addressed in the following three essays.

The first essay, by **Ezra F. Vogel** of Harvard University, examines the changing economic relations between Japan and China. According to Vogel, economic integration between the two Asian countries developed significantly after the mid-1980s. However, Japanese companies operating in China still have serious concerns. In the short run, they face problems with local officials and regulations that hamper their operations. In the longer run, they fear that Chinese companies will become competitors and that Japanese firms will be crowded out of the market.

Vogel points out that the greatest obstacle to effective Sino–Japanese cooperation stems from World War II memories. While Chinese remember atrocities committed by Japanese troops and demand further apologies, the

Gang Lin is program associate at the Woodrow Wilson Center's Asia Program.

Japanese have begun to feel that no amount of apologies will ever satisfy the Chinese. Happily, the Japanese and Chinese are likely to begin to deal with the historical issue, and the new Chinese top leadership is prepared to begin a more constructive dialogue with Japan.

Vogel suggests that the United States should encourage Japanese and Chinese economic integration as well as their efforts at reconciliation. As long as U.S.–Japan security relations remain strong, improvement in Sino–Japanese relations is in U.S. interest, Vogel concludes.

The second essay, by **Gilbert Rozman** of Princeton University, argues that Americans have reason to regard Sino–Japanese relations as the most important great power relationship not centering on the United States, because mismanaging relations with Beijing and Tokyo could jeopardize U.S. strategic goals in East Asia. According to him, observers are prone to view Sino–Japanese relations through a single lens: optimists prefer an image of rapidly accelerating economic regionalism, while pessimists favor instead an angle on great power rivalry. Doomsayers, meanwhile, emphasize the negative impact of historical memories on the bilateral relationship.

Rozman highlights two dangerous tendencies that would threaten U.S. interests. One is an assertive Chinese nationalism that undermines mutual trust and regional cooperation. The other is an insensitive Japan that fails to build bridges with its neighbors. Rozman notes that the impact of September 11 has accelerated the drive for regionalism in Northeast

Asia. A new thinking in China has rejected the notion that Japan's support for the war against terror somehow serves the rise of militarism. Observing China's "smile diplomacy" toward the Japanese and its efforts at promoting free trade agreements in East and Southeast Asia, Rozman suggests that the United States should encourage these developments, rather than driving the two East Asian powers further apart.

Ming Wan of George Mason University, concurrently an Asian Policy Studies Fellow affiliated with the Woodrow Wilson Center and George Washington University, looks at Sino–Japanese political, security and economic interactions. Sino–Japanese political relations are driven either by cooperation or by conflict at a given time, with more tensions after the mid–1990s. At the same time, the Sino–Japanese security relationship is trending downward. The economic dimension of the relationship, however, is a bright spot. For the past few years, both Chinese and Japanese governments have made efforts to prevent any single issue from dominating the overall relationship, which has evolved within tolerable boundaries.

Wan suggests that politically and strategically, the United States should continue to collaborate with Japan while simultaneously adopting cooperative measures toward China, to help improve Sino–Japanese relations. Economically, it is in the U.S. interest to encourage regional integration in East Asia, as China and Japan are already quite integrated in the market place. It is also in the region's interest to have easier access to the U.S. market and to keep the United States actively engaged in the region to maintain a balance of political power, Wan maintains.

While recognizing the historical problems and difficult issues threatening a good Sino–Japan relationship, all three authors observe positive signs in the bilateral ties in recent years, and suggest that the United States should encourage the development of such a trend. In contrast, Yoshihisa Komori of the *Sankei Shimbun*, who offered commentary on these essays when they were first presented at a Woodrow Wilson Center seminar, argued that a rising China would inevitably pose a challenge for the international status quo in East Asia. We hope this Special Report will help spark further discussion on U.S.–Japan–China relations and the impact of these three bilateral relationships on the Asia–Pacific region.

THE ASIA PROGRAM

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Asia Program Staff:

Robert M. Hathaway, Director
Gang Lin, Program Associate
Amy McCreedy, Program Associate
Wilson Lee, Program Assistant
Timothy R. Hildebrandt, Program Assistant



The U.S.–Japan–China Triangle

EZRA F. VOGEL

In 2002, Japan imported more goods from China than from the United States. If present trends continue, before the end of the decade, Japan's trade with China is likely to exceed its trade with the United States. What is the nature of this economic relationship and how will its growth affect the politics and security in the region?

The historical legacy of World War II has made it difficult for Japan and China to develop a close political relationship. Why has this problem been so difficult and can it be managed to facilitate better Sino-Japanese relations?

CHANGING ECONOMIC RELATIONS

Despite the two millennia of relations between China and Japan, economic relations between the two in the last two decades are of a scale and nature unknown in history. In the early 1980s trade between China and Japan and Japanese investment in China were still miniscule. Japan had made substantial investments in China in the 1920s and 1930s, especially in Manchuria, but the economic relations were colonial, with industrial goods coming from Japan and resources coming from China.

From 1949 until 1972 economic relations were by today's standards almost non-existent. China's relatively closed socialist economy and U.S. policy restrained Japan from trading with and investing in China. With the U.S. opening to China in 1971, Japanese political leaders rushed to normalize relations with China in order to ensure that Japanese businesses were not behind Americans in getting into the Chinese market. Although Japanese businesses had a spurt of increased interest in the Chinese market after normalization in 1972, particularly in the years after Deng Xiaoping's opening and reform began in 1978, the scale of Japanese investment and the level of Sino-Japanese trade remained modest.

After 1972 many Japanese firms, inspired, like their Western counterparts with visions of vast numbers of Chinese consumers, were eager to get into the Chinese market. Japanese firms with a long-



term perspective were more prepared to endure more years of losses in the Chinese market than Western firms. Japanese businessmen also recognized that Chinese feelings against Japanese aggression were strong enough that they needed to make extra concessions to gain the good will necessary to obtain a foothold in the Chinese market. Yet even after the Plaza Accord of 1985 forced yen revaluation and more industries had to move abroad to meet international competition, Japanese industries were still looking more to Thailand, Malaysia, and Indonesia than they were to China.

Why did Japanese investment in China develop slowly until the mid-1980s?

In the early 1980s few Chinese officials had a very good understanding of international markets and most were very cautious about making any concessions that might be interpreted as yielding to bourgeois foreign imperialists. The work habits of Chinese had been decimated by the policies of the Great Leap Forward, the Cultural Revolution, and the inefficient state enterprises. Infrastructure—reliable electric power, communications, and transport—were lacking. Chinese technicians and mid-level managers necessary for operating enterprises were virtually non-existent. For Japanese looking for market opportunities, the purchasing power of

the Chinese consumers was still far too limited. For Japanese hoping to set up industrial plants, rapacious local officials seemed to have an endless number of “miscellaneous taxes” which they could levy on any Japanese businesses about to make a profit. The level of industrial skill seemed more appropriate for the processing industries from Hong Kong (toys, apparel, and low grade electronics) than for the higher quality Japanese industrial products.

From the beginning, in addition to the long-term perspective of Japanese firms, Japan had two other advantages over Western counterparts. One was convenient location, which enabled Japanese officials as well as Japanese supplies to get to China within a day if necessary. The second was the link between middle-sized Japanese companies and the Japanese general trading companies. By the early 1980s, each of several Japanese companies had offices in upwards of 15 Chinese cities. Each of these offices could learn about local Chinese market needs and provide the contacts, interpreters, and information to help middle-sized Japanese companies take advantage of opportunities that middle-sized Western companies did not even know about.

What changed in the mid-1980s to speed up economic integration between China and Japan? First, officials in certain Chinese localities learned what foreign companies wanted and could supply what was needed. Because of the decentralization of authority in the early reform period, certain localities that wanted Japanese industrial investments, like Dalian, Shenzhen and the Pearl Delta localities, and Shanghai and other lower Yangze localities, could take the initiative to develop working relations with Japanese companies. Local officials who learned more about foreign markets found ways to attract and keep Japanese firms while finding ways to levy taxes and avoid the risk of being accused of selling out to foreign imperialists.

Second, the Chinese young people who came to Japan to study beginning in the early 1980s were useful go-betweens, managers, and staff personnel for Japanese firms entering the Chinese market. Able young Chinese generally preferred to study in the United States if possible, but there were enough able young Chinese who were ready to go to Japan that by the 1990s tens of thousands of Chinese had studied in Japan. They could intern in Japanese companies to help pay for the costs of studying and, after

graduation, enjoy good perks by working for Japanese companies in China.

Third, Chinese adapted their rules, making it easier for foreign companies to establish their own wholly-owned ventures and sell goods in China. This increased freedom provided new opportunities for sales and gave the Japanese more control over production, allowing them to meet the quality standards that would protect their brand names.

Fourth, the improvement of infrastructure provided the regularity needed for meeting production schedules and reduced the arbitrary imposition of fees to get services that were in short supply.

Fifth, with the rise in the value of the Japanese yen after the Plaza Accord in 1985 and the decline in the value of the Chinese yuan in the early 1990s, Japanese industry could no longer compete with Chinese industry in many labor-intensive sectors. With the other improvements for operating in China, Japanese industrial companies found the opportunities for production in China more attractive than in Southeast Asia. Chinese companies still had trouble competing with Japanese companies in producing goods for the Japanese market and therefore the increased exports into Japan were coming primarily from Japanese companies running in China.

Sixth, Japanese companies have established good working relationships with local employees in China and with officials with whom they come into contact. Although Chinese complain about Japan in general and about some of the practices in Japanese companies in particular, they often have stable satisfactory working relationships with the Japanese companies and some, while not overly vocal about it, even prefer working for Japanese companies.

For enlightened local Chinese officials the issues are clear cut: how to attract substantial industry with the highest possible level of technology that will provide long-term training, employment, and income to the local communities.

Japanese company officials operating in China still have serious concerns. In the short run, they face problems with local officials and local regulations that hamper their operations, but the real concern is the long-term problems. American companies rise and fall, but Japanese companies expect to last. They fear that in the long run Chinese companies will become competitors and that they will be



crowded out of the market. The case of motorcycles is instructive. Leading Japanese motorcycle companies, Honda, Suzuki, Yamaha, and Kawasaki all had successful joint ventures in China. They brought new technology and management skills to China. They were quite profitable. But then some Chinese employees left to work in Chinese motorcycle companies, taking with them skills and sometimes technology. To be sure the Chinese motorcycle companies were starting at the low end of the markets, but then they began to improve their quality, compete with Japanese companies, and even move into Japanese motorcycle markets in Southeast Asia. Japanese managers are confronted with many difficult issues about how much technology to bring to China, how much to use legal procedures to protect intellectual property in a country with modest legal protection for foreigners, and how much to train employees who may not be committed to the company for the long run.

The captains of Japanese industry, Ministry of Economy, Trade and Industry (METI) officials, and Japanese trade unions have related macro-level concerns, the hollowing out of Japanese industry. Given the value of the yen compared to foreign currencies and the rapid increase in imports of China, it is remarkable that Japan has continued to enjoy a substantial trade surplus even at the present time. But the trade surplus is declining and the fears of hollowing out are much more severe than they were for the United States since Japan has so few resources and must rely almost exclusively on industrial exports to purchase agriculture goods and energy supplies, and to maintain a high standard of living in the future.

METI officials are aware that the huge trade surpluses with the United States began with the expansion of heavy industrial products from Japan, especially steel and automobiles. Until it was in the process of joining the World Trade Organization (WTO), China had been planning to develop indigenous auto companies which were very slow in catching up with world standards. With entry into the WTO, China felt it had no choice but to expand joint ventures, not only with Volkswagen but also with other foreign companies like Toyota and Nissan. This will enable China to achieve world standards within the next several years and export to foreign markets. This scenario is already beginning to haunt Japanese planners.

HISTORICAL PROBLEMS

The greatest obstacle to effective Sino-Japanese cooperation stems from Chinese personal memories of World War II, enhanced by their public retelling. Older Chinese in many parts of China remember atrocities committed by Japanese troops, and younger Chinese recall elders relating atrocities. In his essays, Chairman Mao expressed appreciation to the Japanese for stirring up Chinese patriotism. Political leaders have found that accounts of Japanese invasion, the Nanjing massacre, Japanese chemical weapons, experiments on human subjects, and Chinese “comfort women” for Japanese troops have strengthened patriotic sentiment. Movies, stories, and electronic games glorifying Chinese guerrillas fighting Japanese aggressors have enhanced the collective memory.

Public attention to these memories has varied over time. In the period from normalization of relations between China and Japan in 1972 until the mid 1990s, the historical issue was on the back burner as China was establishing good relations with Japan and courting investment from Japanese industry. In the 1980s Prime Minister Nakasone effectively made the case to the Chinese that America was not the “cork in the bottle” holding back Japanese militarism, but that Japan had given up militarism and wanted to live in peace with China. In the aftermath of the Tiananmen Incident of 1989 when Western countries were imposing sanctions on China, China courted Japan, the industrial power most willing to relax sanctions. It would have been difficult for the Chinese to invite Emperor Hirohito, the symbol for Japanese aggression in World War II, but he died shortly before the Tiananmen Incident. The new Heisei Emperor visited China and issued apologies in 1992, at a peak of good relations.

But soon after the imperial visit, relations between China and Japan began to deteriorate. Japan, in response to the criticism it received for not accepting more international responsibilities in the Gulf War, was then beginning to expand its role in defending the perimeter around Japan and accepting a share of responsibility for international peacekeeping. Chinese who, unlike Americans, had had their closest contact with Japanese as invaders in World War II and had little contact after the war, were inclined to see Japanese actions as the first stage in

the revival of Japanese militarism. Although the Japanese bubble had burst, most foreign observers, American as well as Chinese, believed the Japanese economy was still vibrant and powerful. Chinese could foresee an era when Japan, having intense trade conflicts with the United States and pushing for higher technology, would use the technology it gained from the United States to pursue an independent military strategy.

Chinese were aware that Japanese had a special sentiment toward Taiwan, their most successful colony. When Taiwan independence pressures grew in the 1990s, China naturally suspected Japan would encourage Taiwanese seeking independence. When President Lee Teng-hui, who had learned Japanese before he learned Chinese, graduated from Kyoto University and maintained excellent relations with Japan, visited the United States in 1995 and talked of visiting Japan, Chinese officials were alarmed. They compared Lee Teng-hui to Wang Jingwei, the “traitor” who collaborated with Japan in World War II.

Chinese officials have become quite subtle in stimulating anti-Japanese sentiments. They no longer need direct frontal attacks on Japanese. The Chinese public is moved when the government publish accounts of Japanese who deny the existence of the Nanjing massacre, quote Japanese textbooks that deny Japanese aggression, or report visits of Japanese politicians who pay respects to the war dead at Yasukuni Shrine, where among others, Class A war criminals are buried.

In general Japanese overwhelmingly feel guilt about their role in World War II and are aware of some Japanese atrocities. In the 1970s and even into the 1980s, Japanese visiting China were prepared to make apologies. But in the 1990s as Chinese kept complaining about Japan and demanding further apologies, Japanese began to feel that no apologies would be enough to satisfy the Chinese and that they had had enough. British had committed atrocities in India, the Dutch in Indonesia and Africa, and Americans against native Americans. People around the world were ready to move on about those issues. Why only were Japanese expected to apologize for atrocities? Why, asked Japanese under 50, were they asked to apologize for what Japanese militarists had done before they were even born? Japan, then the world's largest aid donor, gave far more to China than to any other country. Why should they

continue to help China develop when it was increasing its military expenses and the Japanese economy was in such trouble? When Japanese visited China, their local hosts were not aware that Japan had given substantial aid, nor were they aware that Japan had thoroughly renounced militarism since the end of World War II. Should we not also complain about their textbooks? To be sure, Japanese concerns were also influenced by the rise of China and the Chinese sentiment that after 150 years of humiliation China was finally resuming its place as the dominant power in Asia.

Japanese attitudes which had been gradually hardening by the mid-1990s erupted during the visit of Chinese President Jiang Zemin to Japan. President Kim Dae Jong who had just visited Japan had been willing to focus on the future, but Jiang Zemin, expecting that further pressure would lead the Japanese to deeper apologies, continued to press hard. Prime Minister Obuchi, reflecting the Japanese mood, refused to issue a formal written apology. Mutual hostility reached a new peak. Although diplomats on both sides hailed the constructive long-term agreements reached during the visit, feelings of mutual hostility remained strong.

PROSPECTS

Looking forward, high level Chinese growth is likely to continue, at least for this decade. Given the pool of Chinese workers and managers and the gradual upgrading of skills, the Chinese share of the global market in goods and services is likely to increase. Given the low level of development in inner China, there is room for considerable growth in consumption levels.

Japanese will make some efforts to protect their patents and their flow of technology and skills to China, but market forces are sufficiently strong that Japanese companies will continue to expand their production in China.

Japanese and Chinese are likely to begin with some efforts to deal with the historical issue. Shortly after the 16th Party Congress in late 2002, a prominent Chinese journalist, Ma Licheng, published an article in *Strategy and Management*, an influential journal, saying that Chinese had greatly exaggerated the risk of Japanese militarism and that China as a mature power should be more magnanimous in



dealing with historical issues. The article does not yet represent a consensus, but the attention to the article in China and Japan suggests that the new Chinese top leadership is prepared to begin a more constructive dialogue on historical issues.

Unless Taiwan pushes hard for independence, China is unlikely in the decades ahead to challenge U.S. dominance on the seas around Asia. But China is gradually becoming the dominant land power in mainland Asia. It has developed better relations with Asian neighbors since reform began in 1978 and there are no indications that this approach will change.

Although there are risks for a crash in the Japanese economy while mammoth bad debts have not been dealt with, Japan is likely to remain one of the leading economies in the world. Its companies have remarkable industrial capacity and the investments in China will enable Japan to continue to invest in high level technology.

SUGGESTIONS FOR U.S. POLICY

The United States should encourage Japanese and Chinese economic integration and the efforts of the

two countries at reconciliation. This process will help integrate China into a peaceful regional and global order and assist stability in the region. As long as U.S.–Japan security relations remain strong, improvement in Sino-Japanese relations is in U.S. interest.

The United States should work to maintain strong alliances with Japan and South Korea. The view expressed by some U.S. Department of Defense officials that the United States can change coalitions with other countries depending on our military missions is unlikely to generate the long-term confidence and trust needed to keep East Asian countries oriented toward the United States.

The most pressing issue in East Asia is North Korea. The United States should work with South Korea, Japan, China, and Russia to provide a framework for relations with North Korea that will allow verifiable freezing of North Korea’s production of weapons of mass destruction (WMD). In exchange these countries should provide a road map for North Korea’s gradual entry into the global market system, that includes economic aid, lifting of sanctions, and diplomatic relations with Japan and the United States.

Sino-Japanese Relations: Mutual Images and the Balance between Globalization and Regionalism

GILBERT ROZMAN

Americans have reason to regard Sino-Japanese relations as the most important great power relationship not centering on the United States, even more important than Sino-Russian ties. I think that many would agree that the priorities in viewing these relations are: 1) steering North Korea away from blackmail using weapons of mass destruction (WMD); 2) enlisting both China and Japan in support of the wider war on terrorism and prevention of hotbeds for terrorists to emerge; 3) finding a balanced approach that minimizes conflict over Taiwan, consistent with past U.S. assurances; 4) channeling the rise of China in ways conducive to peace and prosperity; 5) integrating Asiatic Russia into a regional framework so that a vacuum does not invite destabilizing immigration or cross-border criminalization; and 6) encouraging open regional institutions that support globalization. Miscalculations in managing triangular relations with Beijing and Tokyo could jeopardize one or more of these goals.

Observers are prone to view Sino-Japanese relations through a single lens. Optimists prefer an image of rapidly accelerating economic regionalism, as trade and Japanese investment leap ahead and draw the two countries closer. Pessimists favor instead an angle on great power rivalry, showing mutual fears of growing military power and rival strategies for control of sea lanes and pipelines now that energy security is taken seriously. There are also doomsayers who fixate on contradictory worldviews resting on judgments about history and its use in recent nationalist appeals. In the past three years each group has found evidence to support its outlook. The optimists point to record levels of investment and trade and success in overcoming a trade war that began when Japan restrained surging agricultural imports. The pessimists warn of Japan's alarm at rapidly rising Chinese military budgets and China's alarm at Japanese use of the U.S. war against terror to expand military activities. And the doom-



sayers charge that mutual accusations in response to Japanese textbooks in 2001 are but one spark in the friction over history that shows no sign of subsiding. There is no need to repeat, one-by-one, each of these ways of thinking. The challenge is to find a way to weave these three images into a single picture that will show within the mosaic of images a credible long-term pattern of how relations are evolving. After all, the three images are capable of coexisting for a long time. To the extent we comprehend the pattern of bilateral relations we can calibrate trilateral ones.

Reviewing the evolution of relations between China and Japan from the late 1980s to the present, I argue that there have been two dangerous tendencies that threaten U.S. priorities. The first is an assertive China that undermines mutual trust and leaves steps toward regional cooperation in doubt. China's ideology after June 4, 1989 raised this specter, and its policies toward some countries brought this concern to its peak from 1994 to 1999. The second is an insensitive Japan that fails to build bridges with its neighbors. I would argue that right-wing Japanese thinking about South Korea, Russia, and China is becoming an increasing threat to



thwart U.S. objectives. Some in the United States may think that the greater Japanese apprehensions are toward China, the more the United States can shape China’s evolution. I think that this viewpoint is a fundamental misreading of the nature of both resurgent Japanese nationalism and the complex process of regional integration in East Asia. It also does not serve well the U.S. priorities listed above.

To support this conclusion I consider four periods over the past 15 years. For each I have reviewed mutual images in Chinese sources on Japan and Japanese sources on China, examined how bilateral relations involving China or Japan in Northeast Asia are evolving, analyzed the dynamics of emerging regionalism, and scrutinized debates over national identity in the two countries.¹ The focus here is on the impact of bilateral ties.

THE IMPACT OF THE END OF THE COLD WAR

From 1972 to 1989 both Chinese and Japanese confidently expected time to be on the side of healing the wounds left festering when their war ended abruptly in August 1945 and the San Francisco Peace Treaty concentrated on resolving the legacy of the Pacific War rather than the Greater East Asian War. Under the shared umbrella of partners in the Cold War, they would become increasingly accustomed to cooperation, even if indirect, on security. Japanese developmental assistance and expanded trade would forge close economic networks. Meanwhile, the inexorable departure of the wartime generation would leave pragmatic, business-oriented Japanese along with Chinese conscious of their country’s long-term challenges ready to set aside old ways of thinking.² In reality, a new security environment from 1989 brought nationalism to the fore on both sides, and the spillover from economic ties not only failed to compensate, but also added new elements of rivalry. Rosy expectations proved to be mistaken.

As the Cold War ended, China and Japan needed to realign their relations in the absence of a common enemy and shared strategic threat. The period 1989–93 served as a transition to reassess each other. Having resorted to brutal suppression of demonstrators on Tiananmen Square, China’s leaders left their country isolated and hesitant to sustain reforms for two and one-half years. Meanwhile, overlooking danger sig-

nals that their “bubble economy” had collapsed, Japanese leaders, one after another, raised expectations that the end of the Cold War would quickly be translated into realization of their national goals: gaining equality with the United States as economic power surpassed military power in significance, reentering Asia as a leader as each of the world’s regions coalesced into a separate economic community, and reestablishing nationalism at home on the basis of a consensus restoring pride in Japanese history and a clear message to young people.

Japanese counted on China’s international isolation and continued need for economic growth—as a basis for legitimacy at a time of collapsing world communism—to give their country unprecedented leverage. While to the extent necessary Japan imposed sanctions and criticized human rights abuses, more energy went into positioning itself in the middle between China and the U.S. observers, and even top Japanese politicians spoke of an Asian developmental path, prioritizing political stability over rapid democratization. Japanese expected to become indispensable to China and win regional trust without tempering nationalism. Meanwhile, Chinese communists decided to revive their nationalist credentials through making their country the center of regionalism. Predicting success in regional leadership, they had to disparage Japan’s ambitions.³ The two sides could not find a common outlook as regional or global partners.

In 1992, after Deng Xiaoping reinvigorated economic reforms, Chinese and Japanese drew opposite conclusions. The Chinese calculated that economic gains could be achieved independent of political dependency, while warning that Japan was scheming to convert its economic power into the means to become a political and even a military great power. It was time for greater vigilance against Japan’s leadership plans. In contrast, the Japanese accepted China’s invitation for the emperor to visit with raised hopes that this would become a final step in putting history behind them and creating momentum for much closer ties. Just as Eastern Europe was drawing closer to the West to share in its prosperity, China would elect to draw closer to Japan, whose abundant capital and advanced technology would be indispensable to China’s future.

Although the Chinese rhetoric against rising Japanese power was, without doubt, excessive, it was

Japan that missed an opportunity to deepen trust by addressing historical issues more candidly. The Japanese claim to share an Asian outlook failed because they repeatedly failed the test of sincerity with the Chinese people, culminating in 1995 when, instead of passing a resolution by the National Diet expressing genuine contrition on the fiftieth anniversary of the end of the Pacific War, prefectural assemblies approved their own resolutions justifying, at least to some degree, Japan's wartime motives. When the aftermath of the emperor's visit in 1992 brought no breakthrough, Japanese were disappointed. Before long the World Bank gave its stamp of validation to China's "economic miracle" by recalculating its economy in terms of purchasing power parity, while a reshuffling in Japanese politics became confirmation that the bubble had indeed burst. The balance of power between the two states had shifted, and each side would have to adjust its image accordingly. Japanese overconfidence had proven to be the chief stumbling block in the first stage of the transition, but it was fading rapidly.

If Japan had achieved regionalism on its terms in this period, the United States would have faced a more formidable rival with stronger resistance to economic globalization. If China had gained the upper hand in regionalism, the outcome would have been more dangerous given its interest in preventing the United States from consolidating ties with Russia or pressuring North Korea. The failure of both to achieve a breakthrough in regionalism without serious deterioration in mutual trust did no serious harm to U.S. interests. When the first nuclear crisis in North Korea arose, the United States acted largely on its own.

DETERIORATION IN MUTUAL IMAGES IN THE MID-1990s

From 1994 to 1996 Chinese nationalism grew more assertive, and through the first half of 1999 it targeted Japan in ways that undermined mutual trust. This was a period of repeated overreaching in Chinese relations with Taiwan, Japan, Russia, and the United States. Miscalculations of the evolving balance of power played a large role in what some Chinese experts would later recognize as a mistaken strategy. At the root of the problem was an underestimation of global political integration under U.S. leadership,

leading to assumptions that a balance of power would be possible through convergence of Chinese and Russian strategic thinking and successful manipulation of divisions between Japan and the United States. The ill-fated visit of Jiang Zemin in November 1998 exposed the shortsightedness of this strategic thinking. Coming after the Asian and Russian financial crises and a half year before the successful U.S. war over Kosovo that ended with Russia deserting China by making a deal with the United States, the national outcry in Japan helped to awaken China's leaders to the necessity of an about face in relations with that country.

In 1995-96 China's aggressive stance toward Taiwan and extended testing of nuclear weapons alienated the Japanese public, seriously damaging the goodwill that had prevailed for two decades. The communist leadership solidified its nationalist credentials on the occasion of the fiftieth anniversary of the war with Japan by conveying a negative historical image of that country that overwhelmed any positive future-oriented picture. Then as it gave priority to building what was supposed to be a strategic partnership with the United States, the leadership was content with damage control toward Japan. Finally, the miscalculation that allowed history to be perceived as the main theme of Jiang Zemin's visit brought both sides to the shocking realization that public distrust was growing out of control. Chinese awakened to the danger of damaging their economic and political interests in East Asia and realized their ties to the United States and Russia were not developing as predicted. As much as it was succeeding in economic growth, China was failing to forge stable foreign relations and to boost its regional goals. Yet, from 1997 through the creation of ASEAN plus three (referring to China, Japan and South Korea) and its handling of regional ties in the Asian financial crisis Beijing began to favor a multi-lateral reassuring approach.

After the Jiang visit, Japanese leaders did not draw a similar conclusion about appealing to China to put relations on a priority track, but they too sent a message to the media to calm the hysterical tone that threatened to produce a downward spiral in mutual images. The damage had been done, however. The largely favorable Japanese attitudes toward China and the Chinese people declined sharply and failed to recover. An image of China as a rival intent on



usurping regional leadership and gaining regional military hegemony took root and became deeply embedded. On the Chinese side, despite government efforts to convey a more positive image of Japan, young people grew more receptive to the bitter outlook lingering from the wartime generation. To date, public opinion on both sides retains the suspicions aroused during these years, largely due to Chinese miscalculations.

By 1999 the United States rightly drew the conclusion that China's assertiveness had to be tempered within a context of engagement. After the Chinese overreacted to the Belgrade bombing of its embassy, U.S. firmness and patience gave Beijing time to realistically reassess its options. U.S. enthusiasm for Kim Dae-jung's agreement with Japan over history and cultural ties offered hope that South Korea would not swing closer to China. The Perry process with increased multilateralism kept alive efforts to guide North Korea toward a soft landing. Progress in South Korean-North Korean relations and Japanese-Russian relations in the year 2000 may have lacked a stable foundation, but it deserved the support of the United States as important steps toward realizing its priorities. Overconfidence in the United States in globalization and, in some circles, preoccupation with a potential China threat, left little concern for the damage that could be done by poor relations between China and Japan. A lack of trust in China led few to question Japan's new thinking.

ON THE EVE OF SEPTEMBER 11

After relations with the United States deteriorated in the spring of 1999, China's leaders launched a review of international relations, recalculating the balance of power and the options available to their country. Not only was Japan weaker than earlier thought and the United States stronger, but Japan was drawing closer to the United States for fear of China. To maximize China's options and reflect realities, a decision was made to make a more positive appeal to the Japanese people. If some in Japan were suspicious that this was only a tactical step taken under pressure, it has remained the mainstream position ever since.

Japanese drew different lessons from the deterioration in public attitudes on both sides. Many decided that the Chinese government was at fault and

that the only way to make it change was to pressure it. Cutbacks in overseas development assistance (ODA) over the past three years are one result, although they have been couched as across-the-board reductions in response to budget deficits. Worrying about the long-term rise of Chinese power, including the negative impact on power relations and energy security if it regains Taiwan, Japanese grew more wary of China and had little interest in its overtures.

In the fall of 1999 Beijing launched its "smile diplomacy" toward the Japanese. Academic coverage grew more professional and balanced. A positive tone prevailed except on some especially sensitive issues. From time to time breakthrough articles even questioned the tone of previous coverage of Japan, blaming the Chinese side for alarming the Japanese public. Highlighting the common interests of the two nations continues to be the official line. Indeed, after the 16th Party Congress last fall another breakthrough article intensified Chinese self-criticism of overuse of the "history card."⁴

While most attention has been centered on China's cooperative attitude toward the United States since September 11, it was preceded by a new positive spirit toward Japan and regionalism in East Asia. Already in the early 1990s as China compensated for its isolation with successful appeals to neighboring countries and more open borders, Japan was championing regionalism. Accepting this goal in principle, Beijing put up obstacles in fear of domination by Japan. It looked for balance, at first concentrating on drawing Russia into the region and limiting ties largely to cross-border networks and economic integration. By the year 2000, however, China had become a bigger booster than Japan of regionalism. Pleased with the credit it received in Southeast Asia for its handling of the Asian financial crisis, China took the lead in proposing free trade agreements (FTA) and strongly supported the Chiang Mai Initiative for monetary cooperation. Finding South Korea a reliable third party, it greeted ASEAN plus three summits eagerly and favored turning the "three" into a nucleus for a new type of regionalism with Japan. In November 2002 Zhu Rongji called for three-way study of an FTA with Japan and Korea.

Japan has scrambled to keep some initiative in the region, although increasingly it appears to be at least

one step behind China. Watching nervously as Southeast Asian states such as Malaysia reorient their diplomacy toward China, officials in Tokyo keep striving to match Beijing's initiatives. They too have proposed FTA agreements, although Japan is held back by the Liberal Democratic Party (LDP)'s ties to the farm lobby. While pressing for an FTA with South Korea, Japanese are conscious of the much more dynamic economic relationship between that country and China as well as the greater trust between the population of the two countries. As the Japanese economy continues to stagnate and manufacturing keeps moving to China, it is the Japanese who are nervous about regional integration that could leave them at a disadvantage. Yet, many are ambivalent. After all, firms leading the exodus to China argue it is precisely this force that for the past decade has done the most to keep Japan's economy from entering a freefall. Ma Licheng's report that as many as 420 of Japan's 1,000 largest companies have moved some production to China suggests an inevitability to cooperation ahead.⁵

Japanese images of China are showing little sign of improving. Fear of a rising China accentuates dismay at Japan's hapless diplomacy. In the recent period it is Japanese wariness of China more than Chinese provocations that have kept public opinion on both sides conscious of the fragile state of bilateral trust. Moreover, if in the late 1990s concern centered on a potential security threat, most attention has turned to the economic impact of Chinese exports, rising along with the hollowing out of Japanese industry. Illegal Chinese immigration, accompanied by organized crime, also troubles many Japanese. Chinese efforts to woo Japan do not overcome these concerns.

The Chinese people keep hearing reminders of what disturbs them about Japan. After each of Prime Minister Junichiro Koizumi's visits to the Yasukuni shrine, a national outcry could be seen on the Internet even more than in the media. In the past few years, remarks by Japanese politicians as well as changes in textbooks have revived the history issue even as many Japanese insist that it is China that keeps raising the issue. Ardent advocates of less emotionalism from China are undercut when Japan's new textbooks bring history to the forefront. Despite rapidly growing ties through business and tourism, mutual images remain focused on persist-

ent distrust. Looking back to the spring of 2001, one Chinese source contrasts the gloom of "black April" in Sino-Japanese relations (the textbook issue, the visit of Lee Teng-hui to Japan, Koizumi's promise to visit the Yasukuni shrine as prime minister, and temporary limits on some agricultural imports into Japan) with the "honeymoon feeling" in U.S.-Japanese relations in June as Koizumi responded to Bush's wooing.⁶ The fact that an official visit to China by Koizumi may be unwelcome as he continues to go to the Yasukuni shrine is an indication that Chinese leaders may heed the public's deeply felt concerns.

If the United States expected through closer ties to Japan to tighten limits on the rise of China and reduce the danger of China miscalculating in putting military pressure on Taiwan, it may not have adequately appreciated the potential costs of trying to drive the two East Asian powers further apart. In my opinion, emboldening of Japanese who are obsessed with revising history threatens many if not all of the U.S. priorities. It alienates the South Koreans, turns Chinese public opinion more toward nationalism, reduces the chance of a compromise with Russia, and diminishes the prospects of regional consensus in managing the dangerous inclinations in North Korea. Leading the charge in nationalist criticisms of China in the context of historical revisionism is the *Sankei Shimbun*, whose frequent articles critical of China and popular books warning of the China threat diverge sharply from the mainstream of American thinking about the nature of that country.⁷ In the spring of 2001 the Bush administration was busy trying to draw Japan closer and to send a message to China that it could face containment, as Japan angered public opinion in South Korea, Russia, and China in a span of several weeks.

THE SHIFTING LANDSCAPE OF GLOBALIZATION AND GLOBAL SECURITY

Increasing U.S. power and assertiveness are driving Tokyo and Beijing to look at each other in new ways. Tokyo's outreach to Beijing after 1989 and Beijing's outreach to Tokyo from 1999 both responded to new calculations of heightened U.S. pressure in the region. The other countries that lead to jockeying between Tokyo and Beijing are Russia and South Korea. China sought an advantage by



drawing both Russia and South Korea closer. Eager to right the balance, Japan made new appeals to improve its ties with each of them. Over the past months this competitiveness can be seen in rival proposals for pipelines bringing oil from Siberia and in efforts to coordinate more with South Korea in policies toward North Korea. After years of maneuvering to enhance regionalism in which Russia would be dependent on China, Chinese watched with shock as Japanese appealed to Russia for an energy partnership that, with an extra cost of \$2 billion, would lay pipelines to bypass China. When Koizumi went to Moscow in January 2003 he proposed a strategic project to pipe oil across 4,000 kilometers and around the hump of Heilongjiang province to Nakhodka on the Pacific Ocean, from which it could be dispatched primarily to Japan. He considered this project as the centerpiece of an effort to reinvigorate relations with Russia that he had allowed to lapse in the spring of 2001. The United States looms in the background in this competition.

In 2003 the Korean nuclear crisis makes Beijing and Tokyo more dependent on each other to find a common solution with the United States. Although the war against Iraq found China resisting (after hesitating while France and Russia became vocal opponents on the Security Council) and Japan offering support, both sides place a much higher priority on how the United States handles North Korea. As we anticipate a multilateral approach to this crisis, we should look ahead to ways that China and Japan as well as South Korea and Russia can create an enticing regional environment for the North to give preference to reform over confrontation. A long-term approach is required.

The impact of September 11 has already accelerated the drive for regionalism in Northeast Asia. The message after the 16th Party Congress in November 2002 is that new thinking in China has rejected the notion that Japan's support for the war against terror somehow serves the rise of militarism.⁸ At the September 17, 2002 summit Japan made it clear that it would provide massive economic assistance to North Korea, which agreed to drop claims for reparations, conditional on normalization of relations. South Korea is trying to orchestrate a multilateral

package of economic incentives to entice the North. Russia is eager to be included in a plan to link its Far East with large economic projects on the Korean peninsula and a security arrangement for the area. The level of consensus among North Korea's four neighbors is high. If Beijing and Tokyo were to find common cause, the chances of success would rise. The United States should encourage this outcome.

ENDNOTES

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The U.S. Factor in Sino-Japanese Relations

MING WAN

This essay looks at both structural and policy impacts of the United States on Sino-Japanese relations. Structural impact refers to the overall U.S. presence or strength. For example, it is a strong democracy, large market, military superpower, cultural center, and magnet for immigrants. By contrast, “policy” is made up of discrete government actions to advance specific objectives. Here policy also includes styles and tones. Structural and policy impacts obviously overlap, but they are not the same. Structural impact is more than the sums of policies. One country can also adopt policies consistent or inconsistent with its structural position.

THE U.S. FACTOR IN SINO-JAPANESE POLITICAL AND SECURITY INTERACTION

1. Sino-Japanese political and security interaction

This essay is partly based upon my assessment (“scoring”) of major events in Sino-Japanese political integration. These events include both disputes and cooperative achievements. Political interaction is defined as intergovernmental exchange. Three conclusions can be drawn from my research.

First of all, the relationship was fluctuated but trended downward overall, with more tensions since the mid 1990s. The trend stands out, as both U.S.–Japan and U.S.–China political relations are trending upward at the same time.

Second, Sino-Japanese political interaction is immature. In most cases, it is driven either by cooperation or by conflict at a given time. There are few exceptions. For example, Japan adopted sanctions against China in 1989–1990, but it was understood by everyone that Tokyo had little choice but to follow Washington’s lead. As a result, the Chinese government did not react harshly to Japanese sanctions and chose instead to seek cooperation with Japan as a way to break out its isolation from the developed nations.

By contrast, U.S.–Japan and U.S.–China political interactions sometimes experience a high degree of



cooperation and conflict at the same time. U.S.–Japan political relations since the late 1960s have had two tracks. On the security track, there has been more cooperation than conflict. On the economic track, there has been more tension than cooperation. The only exception was the first two years of the Clinton administration when a focus on trade disputes led to a serious downturn in both dimensions of the relationship. U.S.–China political interaction is less dominated by a single issue than China-Japan political interaction. And since the mid 1990s U.S.–China political relations have become more like U.S.–Japan relations. The United States and China now simultaneously cooperate where they can and conflict where they must.

It should be noted that for the past few years, both Chinese and Japanese governments have made efforts to prevent a single issue from dominating the overall relationship, which is necessary given the increasing complexity of the bilateral relationship. This development bodes well for the future.

Third, the Sino-Japanese political relationship has evolved within tolerable boundaries. There has not been a high degree of conflict in this relationship. China’s relationships with other major powers

Ming Wan is associate professor of public and international affairs at George Mason University, and Asian Policy Studies Fellow at the Woodrow Wilson Center and George Washington University.



have been much more volatile. So while there are increasing political tensions between China and Japan, the relationship is not in crisis. It is dispute-prone but manageable.

The reason for this is that policy elites in both countries have managed the relationship skillfully. But that is changing. The trend here is that public opinions—mostly negative—in both countries now have greater impact on policymaking, and the management mechanism has been weakened. If one believes stability in the relationship is desirable, this trend does not bode well for the immediate future. Societal participation will be healthy for the bilateral relationship in the long run but is creating short-term adjustment pains.

What distinguishes Sino-Japanese security interaction is that it became a diplomatic issue much later than Sino-Japanese economic, political and socio-cultural interactions. It was meaningless to talk about Sino-Japanese security relations until the early 1990s, and even since then, cases of security interaction are infrequent in the bilateral relationship. Although the 1978 Peace and Friendship Treaty had an anti-hegemony clause aimed at the Soviet Union, Japan tried its best to minimize the strategic implications of the treaty. China became concerned about Japan’s revival of militarism, but this concern was mainly one-sided. Since the early 1990s, there has been mutual suspicion of security intentions and capabilities. So the Sino-Japanese security relationship is trending downward, which contributes to the overall downward trend of political interaction.

2. The U.S. factor in Sino-Japanese political and security interaction

The first point is that the United States has seldom adopted policy to influence direct Sino-Japanese governmental exchange. There are small exceptions, but the United States has largely been hands-off. If anything, the U.S. tends to be more concerned about cooperation than disputes between China and Japan.

The second area to look for U.S. impact is how U.S. relations with either China or Japan affect the relationship between the two Asian nations. My empirical research shows that the three bilateral relationships do not overlap extensively. They have different cycles, and disputes and achievements happen for different reasons.

U.S. impact can be located in at least three places. First, the United States affects truly important events in Sino-Japanese relations, such as U.S.–China diplomatic normalization in 1972, the Taiwan Strait crisis in the mid 1990s, and the strengthening of the U.S.–Japan alliance since the 1990s. When it comes to questions of war and peace, the United States has been central. This continues to be the case. If the United States wants to take a decisive move, it can shape things in Asia. This is a reflection of U.S. structural power.

Second, U.S. structural impact explains why China and Japan are not going to become allies. The United States is simply more attractive or valuable a partner for either Japan or China politically.

Third, the U.S. factor is partially responsible, but only partially, for the absence of severe conflict between China and Japan. The reasons that China and Japan have not allowed tensions to escalate beyond the point of no return are, for example, growing economic ties and the high costs and proven futility of past military conflict between the two nations. We should not exaggerate the U.S. role as a stabilizer or “bottle cork.” This is a case in which absence of military conflict is determined by multiple factors.

In fact, when the United States actively seeks cooperation with Japan (mostly in the security area), it will bring some damage to China-Japan relations. I have calculated correlation coefficients of not just overall relationships but also cooperative and conflictual timelines. Among other things, my calculation shows—due to the nature of research design, any finding here is suggestive rather than definitive—that U.S.–China cooperation is strongly and positively correlated with the overall U.S.–Japan relationship (16 percent variation), but has no impact on the overall China-Japan relationship. By contrast, U.S.–Japan cooperation has a moderate negative correlation with China-Japan relations (12 percent variation) while having little impact on U.S.–China relations. China-Japan cooperation has no meaningful impact on the other two overall relationships.

Some might think that the United States is pleased to see tensions between China and Japan. Tensions between China and Japan may serve short-term U.S. interests but, based on historical evidence, will eventually come back to hurt U.S. interests as well. It follows then that the United States should not seek coopera-

tion with Japan in isolation but needs to adopt cooperative measures toward China to offset the negative effect and help improve Sino-Japanese relations.

THE U.S. FACTOR IN SINO-JAPANESE ECONOMIC INTERACTION

1. *Sino-Japanese economic interaction*

The economic dimension of the Sino-Japanese relationship is a bright spot. There are problems such as trade disputes, economic rivalries and suspicions, but on the whole economic ties are growing dramatically between the two countries.

China-Japan trade has grown from \$1 billion in 1972 to \$101.9 billion in 2002, a shocking 100-fold increase in 30 years. Bilateral trade grew most dramatically after 1992. The two countries have become more important trading partners relative to other key trading partners. Japan has been China's largest trading partner since 1994. China has been Japan's second largest trading partner since 1993, trailing only the United States.

Other indicators of economic cooperation, such as foreign direct investment (FDI) and technology transfers, do not look as smooth as trade relations, but they all point in the general direction of closer economic ties between China and Japan. Moreover, Japan's FDI to China has increased for the past few years, showing a positive investment-trade nexus. That is, investment and trade are pulling each other up.

The two governments have certainly adopted policies to promote economic cooperation. And such policies remain important as rule guarantors and arbiters of trade disputes. But more important, market forces are at work. It is increasingly the private sector, producers and consumers, that is driving economic ties between the two countries. With both countries in the World Trade Organization (WTO), this trend will accelerate. This is the main difference between economic ties and political interaction that involves exclusively intergovernmental exchange. Interestingly, we typically start with and focus on economic transactions and talk about government policy much later in a study or presentation.

2. *The U.S. factor in Sino-Japanese economic interaction*

The United States has not said anything or done anything significant regarding Sino-Japanese eco-

nomical relations per se. There was some concern in the United States about Japan using official development assistance (ODA) to seek strategic advantages in China in the 1980s and early 1990s. But this is a non-issue now.

The U.S. bilateral economic policy toward China or Japan affects Sino-Japanese relations. For example, U.S. trade pressure on Japan in the early 1990s explained partly why Japanese exports to the United States declined as share of its exports while Chinese exports to the United States and Japanese exports to China increased.

The U.S. policy toward China's accession to the WTO also helps Japanese exports to China. Large Japanese enterprises have become more willing to invest in China because of China's WTO membership, which may pull in more Japanese exports in the short run. Japan's exports to China did increase sharply in 2002.

The U.S. factor in Sino-Japanese economic interaction is mainly structural, similar to its role in Sino-Japanese political interaction. I will examine three propositions in the following paragraphs.

The first proposition is that the United States makes close Sino-Japanese economic transactions possible by creating an atmosphere of security, and fostering freedom in trade and investment. This proposition is only partly correct. The Chinese and Japanese have always traded. They traded before, during, and after the war. Japan engaged in considerable trade with China through the 1960s when there was virtually no trade between the United States and China. It simply makes economic sense for the two Asian nations to trade with each other. However, it is also true that the two nations trade much more under current market conditions now than before. Japan's partial embrace of a market economy took place within the U.S. hegemonic system, and Japan's success later affected China's decision to reform and open. Along the way, the United States has kept up pressure on Japan and China to reduce barriers to trade. Along this causal chain, there have been many other important factors, mostly domestic decisions in Japan and China, but the United States has clearly been part of the process.

The second proposition is that the United States has been a direct and dominant participant in the East Asian economy. This proposition is clearly true. The U.S. structural impact here reflects its domi-



nant position in the global market and international financial institutions. The United States is a major trading nation heavily involved in Asia. In fact, U.S.–Japan trade is by far the largest of the three trading relationships. American and Chinese trade statistics are different; the U.S. figures include entrépot trade through Hong Kong while the Chinese figures do not. If we use U.S. statistics, the United States should be China's largest trading partner as well.

This is a win-win-win situation. All three trading relationships are expanding rapidly, with similar trajectories. In an age of globalization, multinational corporations that account for much of trade and investment do not limit their plans to bilateral trade. Put differently, production networks are constructed regionally and globally. So the three trading relationships are part of the same process. What is interesting is that all three nations are beneficiaries of globalization, on balance.

Moreover, the U.S. importance lies in the fact that it is the largest export market for many countries, including Japan and China. The U.S. market has always been important for Japan. The most dramatic change over the past 30 years is China's increasing dependence on the U.S. market. This is due to U.S. structural power, as well as China's need for technology and capital. So no one in his right mind in Japan or China should want to exclude the United States from the region. They depend on the United States.


The third proposition is that since the United States is so important, East Asia will not be able to realize regional integration on its own. I reject that proposition. The main evidence for this is that China and Japan already have a high degree of economic integration, as measured by trade intensities. The idea of trade intensities is basically that when two countries become more important trading nations, they should also trade with each other more proportionately. For example, if China's imports as share of world imports have increased from 5 percent to 10 percent, if everything else is the same, Japan should now export 10 percent to China, increasing from 5 percent. That would give Japan-China trade a trade intensity of one, which means that there is no bias in that trade relationship. Trade intensity over one means that there is a positive bias in favor of bilateral trade.

I have calculated trade intensities among China, Japan and the United States since 1972. What might be surprising is that there was a high degree of mutual positive bias in Sino-Japanese trade from the beginning (between three and five through the early 1980s). That bias decreased in the next ten years, but has trended upward since the early 1990s (now about 2.5 to 3.5). We see greater positive bias between China and Japan than between Japan and the United States, or between China and the United States, since 1972. This is actually quite orderly. But note that China–U.S. and U.S.–China trade intensities started from almost nothing in 1972 to around one in the 1990s.

In short, China and Japan are already quite integrated, measured by positive bias, in the market place. Generally speaking, when two nations are already close economically, it makes it easier to institutionalize the economic relationship in a formal setting, which in turn brings the countries even closer. This applies to East Asia in general. From an economic perspective, East Asia has the need and the market reality to create integration, which do not guarantee anything, but do make it easier to institutionalize economic integration already in the market place.

The likelihood of East Asia creating regional integration on its own does not contradict the essential role the United States plays in East Asia. Free trade areas (FTAs) under WTO rules are not exclusive, only discriminatory. FTAs consistent with WTO rules lower tariffs for member states while not increasing tariffs on non-members. They are discriminatory in that member states now enjoy greater advantages than non-members. So the European Union (EU) and North America Free Trade Agreement (NAFTA) have not excluded East Asia, only discriminated against East Asia. It makes economic sense for East Asian countries to create FTAs, which benefit themselves and can give them a bargaining chip against discriminatory measures of Europe and North America.

Economic regionalism in East Asia is taking place in the absence of U.S. leadership. The U.S. Trade Representative has recently been quite active in FTA discussions, announcing the Enterprise for ASEAN Initiative in October 2002, which offers the prospect of FTAs on a bilateral basis to ASEAN members that are already in the WTO. The United States agreed on a FTA with Singapore in November 2002. But it remains the case that the United States does not have



a clear strategy toward regional integration in Asia, which allows the exploratory East Asian groupings to evolve in recent years.

It is in the interest of the region and the United States for America to participate in regional integration. It is in the region's interest to have easier access to the world's largest market and to keep the United States actively engaged in the region to maintain a balance of political power. It is in the U.S. interest to participate in the creation process and avoid a potential discriminatory effect from any "East Asian only" FTAs down the line. Moreover, regionalism is not just an economic matter. It does have long-term strategic implications. In Europe, the United States has NATO, which overlaps to a large extent with the European Union. By contrast, the United States has only bilateral alliances in Asia. If the United States has a problem with key European countries now, it would have a far more serious problem when East Asia builds a regional group without a multilateral security arrangement that links with the United States.

CONCLUSION

The Sino-Japanese relationship is dispute-prone but manageable politically, troubled and uncertain militarily, and integrating economically. The United States has been an important factor in shaping the parameters for Sino-Japanese political interaction, a decisive player in Sino-Japanese security relations, and part of the same process of globalization—arguably originating in the United States—that conditions Sino-Japanese economic ties. The U.S. influence comes mainly from its structural power in having the largest and the most advanced economy, the strongest military force, and the most extensive alliance structure in the world. While U.S. structural power may bail out policy mistakes at times, it needs wise policy to ensure active cooperation or passive acceptance from the two Asian powers for realizing its objectives. The United States should help alleviate tensions in Sino-Japanese relations and participate actively in regional economic integration.



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