

PART 2: JAPAN'S RELATIONSHIP WITH CHINA

Introduction

The U.S.-Japanese alliance is a vital relationship in Asia, making the Sino-Japanese relationship important to U.S. interests. Sino-Japanese relations are influenced by centuries of war, most recently World War II. Japan and China have strengthened their relationship in recent years by focusing on expanding economic opportunities. This has resulted in significant trade and investment between the two countries. In addition, they have expanded cultural, science and technology, and education interaction. In May 2008, the Government of Japan invited Chinese President Hu Jintao to discuss bilateral relations. As a result of the successful state visit, President Hu and then-Japanese Prime Minister Yasuo Fukuda issued a joint statement regarding a "Mutually Beneficial Relationship Based on Common Strategic Interests."¹⁷⁷ The visit marked a fresh start in bilateral relations in the 21st century, and both nations pledged to support greater cooperation.

Today, the Japanese government's official posture toward China is to encourage Beijing to participate more actively in the international community. In a 2008 joint statement, the two countries recognized that "the Japan-China relationship is one of the most important bilateral relationships for each of the two countries and that Japan and China now have great influence on and bear a solemn responsibility for peace, stability, and development of the Asia-Pacific region and the world."¹⁷⁸ To this end, Japan has encouraged China to improve compliance with its obligations to the World Trade Organization (WTO) and has promoted bilateral and multilateral dialogue through high-level exchanges and engagement in regional forums, such as ASEAN+3,* and APEC (Asia-Pacific Economic Cooperation). Japan and China also have cooperated in the Six-Party Talks aimed at improving security in Northeast Asia and globally by persuading North Korea to destroy its nuclear weapons and dismantle its nuclear program.

Trade and Economic Relations

Japan's economic relationship with China has been steadily growing over the past 10 years. From 1995 to 2006, Japanese investments comprised an annual average of over 8 percent of the total value of foreign direct investment in China.¹⁷⁹ After a steady rise in Japanese investments in China between 2001 and 2006, manufacturing investments dropped in the first two quarters of 2007.¹⁸⁰ This decrease is attributed to increasing labor costs in

* ASEAN is the Association of Southeast Asian Nations. ASEAN+3 includes the member nations of ASEAN plus China, Japan, and South Korea.

China, appreciation of the RMB, and Japan's shift to a broader foreign investment strategy, encompassing other nations like Vietnam and Thailand, in order to reduce risk.¹⁸¹ In addition, according to the Japan External Trade Organization (JETRO), the boom of Japanese-funded projects in China around the time of China's entry into the WTO in 2001 now is nearing completion, and the flow of funds from Japan has substantially slowed.¹⁸² Nonetheless, Japan ranked as China's third largest investor in 2006.

Japanese Investment in China, 2000–2006

Year	Number of Projects in China			Realized Foreign Direct Investment Value (\$ are in billions)		
	Japan	National Total	Share	Japan	National Total	Share
2000	1,614	22,347	7.22%	291.58	\$4.071	7.16%
2001	2,019	26,140	7.72%	434.84	\$4.688	9.28%
2002	2,745	34,171	8.03%	419.00	\$5.274	7.94%
2003	3,254	41,081	7.92%	505.41	\$5.350	9.45%
2004	3,454	43,664	7.91%	545.15	\$6,063	8.99%
2005	3,269	44,019	7.43%	652.97	\$7.241	9.02%
2006	3,208	41,501	7.73%	655.40	\$6.950	9.43%

Source: Ministry of Commerce (MOFCOM), China. www.fdi.gov.cn/pub/FDI_EN/Statistics/AnnualStatisticsData/AnnualFDIData/FDIStatistics,2006/t20070930_85380.htm.

Comparative Investments in China

Country/Region of Origin	Amount Invested 2006 (\$ in billions)	Amount Invested 2007 (\$ in billions)	Year-on-Year Growth
South Korea	\$3.99	\$3.68	- 7.89%
Japan	\$4.76	\$3.59	- 24.59%
Singapore	\$2.46	\$3.18	29.30%
United States	\$3.00	\$2.62	- 12.79%
Taiwan	\$2.23	\$1.77	- 20.43%

Source: U.S.-China Business Council, "Forecast 2008: Foreign Investment in China," p. 3. <http://www.uschina.org/public/documents/2008/02/2008-foreign-investment.pdf>.

China currently is Japan's largest import partner, accounting for 20.5 percent of Japanese imports, and second largest export partner, accounting for 15.3 percent of Japanese exports.¹⁸³ In 2007, China replaced the United States as Japan's largest trading partner, with imports and exports totaling over \$236 billion.¹⁸⁴ Although trade between China and Japan has been increasing, the Japanese Ministry of Economics, Trade, and Industry (METI) noted four concerns regarding Japan's relationship with China when Commissioners visited in Tokyo in August 2008. First, like the

United States, Japan has experienced an increasing number of food and product safety incidents involving Chinese imports, the largest of which, at the time of the visit, involved frozen dumplings tainted with high levels of pesticides. The case resulted in a temporary decrease in Japan-China trade of food products.

Japanese officials and companies also are very concerned about the rampant theft of Japanese intellectual property. METI officials described pirated Japanese television shows being posted on Chinese video-sharing Web sites and said Japan has been disappointed that in response to Japan's requests to China to remedy intellectual property rights (IPR) problems, China has evinced little concern.

The third issue raised with the Commission delegation is the growing impact of Chinese air pollution on environmental quality in Japan. China is now the world's largest consumer of coal, the second largest consumer of oil, and the world's largest emitter of carbon dioxide. The issue of the effects of China's pollution is discussed in more detail in chapter 3, section 1, "China's Current Energy Picture." In meetings with the Japanese Ministry of Foreign Affairs (MOFA), Commissioners learned that Japan has offered to work with China to help it reduce pollution while ensuring that environmental reforms do not impair China's economic growth. MOFA officials said that China's willingness to engage on environmental issues is growing but that China remains guarded concerning energy issues. In May 2008, the two countries agreed to continue research on carbon dioxide capture and storage techniques and to strengthen their cooperation on nuclear energy technology.¹⁸⁵

A major concern expressed to the Commission delegation in its meetings in Japan is China's adherence to obligations and commitments it accepted when it acceded to membership in the World Trade Organization. METI officials agree that Japan and the United States should cooperate in urging China to accept and fulfill its WTO responsibilities. In the context of discussing China's failure to meet its WTO obligations, METI officials told Commissioners that China's currency manipulation poses a significant problem and has distorted trade between China and Japan.¹⁸⁶

Another major economic issue affecting both China and Japan is their dependence on foreign sources of energy, potentially placing them in direct competition for natural resources. Japan imports 86 percent of its energy. It is the world's largest importer of liquefied natural gas and the second-largest importer of crude oil. The Japanese government supports measures for energy exploration within Japan's Exclusive Economic Zone (EEZ) and actively pursues energy efficiency measures. This two-pronged approach to energy policy is both an attempt to reduce carbon emissions and to bolster the country's energy security.¹⁸⁷

Territorial Issues

Over the last few years, Japan and China have clashed over maritime territorial disputes. In 2004, a Chinese submarine was discovered in Japanese territory off the southwest coast of Okinawa. China rejected Japan's protests and refused to issue an apology.

Days later, although they did not apologize, Chinese officials expressed regret and explained the intrusion as an accident.¹⁸⁸

A group of uninhabited islands in the East China Sea, known in Japan as the Senkaku Islands and in China as the Diaoyutai Islands, administered by Japan but in the EEZ each nation claims, has been another sore subject between China's and Japan's governments. (The islands also are claimed by Taiwan.) The Japanese government considers China's claims to the islands based on "geographic and historical value" to be baseless in light of international law.¹⁸⁹ Chinese activists reignited the dispute over the islands in 2004 when they landed on one of the islands and promptly were detained by the Japanese.¹⁹⁰ Early in 2007, a Chinese surveillance ship was detected some 18 miles off the Islands, setting off another round of territorial claims from Japanese and Chinese officials. Later in 2007, Japan formally protested China's gas exploration activities near the Senkaku Islands in what both claim as their EEZ.

The Japanese government has maintained that China's drilling in the East China Sea depletes natural gas from Japan's territorial seabed and infringes on Japan's EEZ; China disagrees and disputes Japan's claim.¹⁹¹ Japan contends that the demarcation line should be drawn at a point equidistant from the two countries, a practice established by the Law of the Sea Treaty to which both China and Japan are signatories,¹⁹² but China argues it is entitled to a greater share of the territory because China's continental shelf extends beyond the equidistant demarcation line between China's and Japan's coasts. China's preferred method of maritime delimitation, like the use of the equidistant point between countries, is recognized in the Law of the Sea Treaty but is increasingly outmoded in international law as a delimitation method.¹⁹³ Use by a nation of international law and treaties, and their interpretation and reinterpretation, to advance its sovereignty claims over another nation's sometimes is known as "legal warfare" or "lawfare." (The "lawfare" concept and China's uses of it are further addressed in chap. 2, sec. 2, "China's Views of Sovereignty and Methods of Controlling Access to its Territory.")

Tensions over the territorial dispute in the East China Sea were further heightened in 2003 when the Chinese concluded oil contracts with companies such as Royal Dutch/Shell and Unocal (now Chevron) to develop the Chunxiao oil fields four kilometers from the EEZ demarcation line Japan claims.¹⁹⁴ In June 2008, both sides reached a compromise that sidesteps the sovereignty debate and agreed to develop jointly the oil reserves in the area at issue. Japan agreed to invest in Chinese drilling, while both countries agreed to receive equal shares of the profits.

Japan's Defense Posture

As China continues its rapid military buildup and modernization, its Asian neighbors including Japan are taking notice. The Japanese Bureau of Defense Policy, in meetings with Commissioners in Tokyo, described the foremost problem of China's military buildup as its lack of transparency, a concern frequently raised by the United States.

Japan's defense industry is becoming concerned about supply chain security—also an issue of significance to many in the United States that has been addressed in previous Commission Reports to Congress. Interlocutors during the Commission's visit in Tokyo described the anxiety of Japan's military and civilian leadership concerning the integrity and reliability of Japan's defense systems supply chains as a result of using Chinese-manufactured subcomponents in Japanese defense equipment. The Commission also was told that Japan is evaluating options to ensure its defense supply chain is secure.

Japan has developed an outline for a five-year buildup of its Self-Defense Forces. Japanese officials say the plan is not aimed specifically at China. According to the Bureau of Defense Policy, the plan focuses on small contingencies near Japan. A range of contingencies, resulting from conflict over energy exploration in the disputed EEZ, the disputed Senkaku Islands, the Liancourt Rocks, an intruding Chinese submarine, or a war over Taiwan (which Japan recently indicated might be an issue it would consider pertinent to its own security), involve China.

In 1996, Japan and the United States issued a vague joint declaration that the two countries would work together to address "situation[s] that may emerge in the areas surrounding Japan and which will have an important influence on the peace and security of Japan."¹⁹⁵ In 2002, the Japanese Defense White Paper defined what might constitute one such situation, saying that "the issue of China-Taiwan relations, though a domestic issue from the Chinese perspective, is perceived as a security problem which threatens regional peace and stability."¹⁹⁶ The significance of the Taiwan issue to Japanese security again was clarified in 2005 when Japan and the United States issued a joint statement declaring that the peaceful resolution of the issue is a "common strategic objective" for both countries.¹⁹⁷

Conclusions

- The United States and Japan share similar concerns about China's commitments under the World Trade Organization, its increasing pollution, its failure to protect intellectual property, the safety of Chinese food and other imports, and the security of the supply chain of each country's defense industrial base.
- Japan and China have several territorial disputes, one of which is about the proper demarcation of their Exclusive Economic Zones in the East China Sea. Although these disputes have not been resolved, the two countries have found a temporary compromise in one case by agreeing to the joint development of the East China Sea's oil reserves.
- Japan plans to pursue a five-year buildup of the Japanese Self-Defense Forces that is designed to enable it to respond effectively to conflict scenarios near Japan, some of which could involve China.