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MANAGING
A CHANGING RELATIONSHIP:
China's Japan Policy in the 1990s

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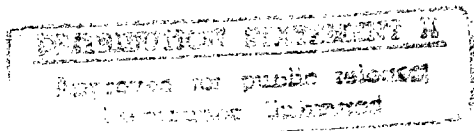
**Strategic Partner and
...or Peer Competitor**

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FOREWORD

In April 1996, the Army War College's Strategic Studies Institute held its Seventh Annual Strategy Conference. This year's theme was, "China into the 21st Century: Strategic Partner and . . . or Peer Competitor." The author of the following monograph, Dr. Robert S. Ross, of Harvard University's Fairbank Center for East Asian Research, argues that Japan's relationship with China is a key element in the evolving East Asian security structure. From Beijing's perspective, China's Japan policy rivals its relationship with the United States in relative strategic importance. Japan's economic strength and its potential military power make it a major factor in Chinese security calculations.

Many of the same factors that affect Sino-American relations and Sino-Russian relations are integral to the relationship between Beijing and Tokyo. Among these are Chinese treatment of dissidents, the Taiwan issue, economic investment, and Japanese military policy and strategy. Today Japanese and Chinese interests compete in many areas, requiring tolerance, patience and diplomatic sophistication to keep competition from evolving into conflict. In the future, these challenges are likely to grow in complexity.

Perhaps as a legacy of the Cold War, those of us in the strategic analysis community on this side of the Pacific tend to see the world in terms of bilateral relationships with the United States. Professor Ross's thoughtful monograph illustrates the greater complexity of international interactions. In this century, the United States has faced tremendous challenges in East Asia, with conflict erupting into warfare with both China and Japan. For that reason alone, Professor Ross's essay warrants a close reading by strategists and policymakers alike.

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ROBERT S. ROSS is an Associate Professor of Political Science at Boston College and a Research Associate of the John King Fairbank Center for East Asian Research at Harvard University. His most recent works are *Negotiating Cooperation: U.S.-China Relations, 1969-1989* and *East Asia in Transition: Toward a New Regional Order*. He is currently writing a book on the rise of China and East Asian security and a book on Chinese foreign policy with Andrew J. Nathan. Professor Ross is a member of the National Committee for U.S.-China Relations, the United States Committee of the Council for Security Cooperation in the Asia-Pacific, and the International Institute for Strategic Studies.

MANAGING A CHANGING RELATIONSHIP: CHINA'S JAPAN POLICY IN THE 1990s

Introduction.

China's Japan policy is a central component of China's overall security policy, rivaling the U.S.-China relationship in importance. As both an economic and potential military great power, Japan has the ability to make a significant contribution to Chinese security. It can contribute to Chinese economic development and become a partner in managing regional security issues in the interest of stability in East Asia and their respective national interests. Alternatively, over the longer term, Japan has the ability to become a major threat to vital Chinese interests. Should Sino-Japanese security relations deteriorate, Tokyo could deny China access to its economic resources, including the Japanese market, and its capital and technology, and it could influence other countries in East Asia to do the same. This would have a significant impact on Chinese economic development and Beijing's long-term military modernization program. Japan could also participate in a regional coalition aimed at China and, most alarming, if it realized its considerable offensive military potential, it could directly influence the regional balance of power and regional diplomacy to China's strategic detriment.

China has a lot at stake in Sino-Japanese relations. To maximize the benefits and minimize the prospects for adverse trends, Beijing must carefully manage the relationship, seeking to consolidate cooperative trends, to avoid the development of unnecessary conflict, and to minimize the impact of basic conflict of interests. Simultaneously, without undermining its cooperative efforts toward Japan, Beijing must also develop the

domestic resources necessary to contend with an economically, technologically, and militarily more capable Japan; it has to play catch-up to a potential great power threat. Finally, Chinese policymakers must pay close attention to contemporary trends in Japanese foreign and defense policy, including policy toward China, assessing the impact of changing Japanese policy on Chinese security interests. In response, they must develop a nuanced policy that discourages detrimental trends in Japanese policy while not undermining the prospects for bilateral cooperation.

The challenges of China's Japan policy are considerable. Even under the best of circumstances, Chinese leaders would be hard-pressed to develop a Japan policy that could satisfy these competing demands. Yet, contemporary circumstances make the task all the more difficult. Recent developments in Chinese relations with Taiwan and the United States impact Japanese foreign policy, and domestic politics in Beijing and Tokyo complicate the process of sustaining nuanced foreign policies and cooperative bilateral relations. It is far from clear that, in these complex circumstances, Chinese policymakers have either the diplomatic skill or the political flexibility to meet the challenge of sustaining Sino-Japanese cooperation.

Japan, Multipolarity, and the 21st Century.

Chinese leaders share the global appreciation for the reduced tensions of the post-Cold War era. As much as any other country, China contributed to the positive outcome of the Cold War, and it welcomes the opportunity to end the high level military readiness and economic dislocations associated with the Soviet threat and to focus its scarce domestic resources on economic development.

Nonetheless, Chinese leaders also share in the widespread apprehension that the current relief from high levels of international tension may be short-lived. They do not believe that power politics has ended or that there is any guarantee that there will be long-term stability in

international politics or great power relations. As Premier Li Peng explained in his March 1996 Report on the Work of the Government to the National People's Congress, "The world . . . is still full of contradictions. Hegemonism and power politics are the roots of instability in the world."¹ This attitude was repeated by a senior Chinese journalist, who explained that looking toward the 21st century, "all is not well in the world. Hegemonism and power politics will remain the principal barriers to . . . peace and stability."²

A key component of this perspective is the shifting relations among the great powers in the transition to a multipolar balance of power in East Asia. While acknowledging that the United States is the only superpower, Chinese policymakers understand that uneven rates of change among the great powers will gradually produce a more equitable regional distribution of power in the 21st century. Once again, Li Peng described well the Chinese perspective, arguing that "the world is developing toward multipolarization at an accelerating pace."³ A retired senior Chinese diplomat observed that since the end of the Cold War, "the world has been moving with a dizzying pace toward multipolarity."⁴ In this evolving situation, international conflict and cooperation will be determined by great power relations. "In a multipolar world, the single superpower and the many powers may cooperate when their interests collide, and clash when their interests conflict."⁵ In the 21st century, the great powers "will engage in mutual competition, mutual restraint, and mutual cooperation."⁶

Central to China's understanding of East Asian security in the 21st century is its assessment of Japan's likely future role in the multipolar balance of power. The Chinese perceive Japan as a rising power determined to play a major independent role in the regional balance. Foreign Minister Qian Qichen observed that Japan "is not reconciled to being only an economic power but hopes to play a major role as a big power in international affairs."⁷ Chen Peiyao, director of the Shanghai Institute of International Studies, argues that Japan aims to become the economic and political leader of East Asia and has started to compete actively with the

United States for regional influence.⁸ Chinese analysts also point to Japan's increasing effort to become a permanent member of the United Nations (UN) Security Council and its growing military participation in U.S. peacekeeping activities, including its participation in the UN intervention in Cambodia, as evidence of its political ambitions.⁹

Compounding Chinese concern regarding Japanese intentions is its appraisal of Japanese capabilities. Japanese great power economic capabilities are well known. Japanese business has become the importance source of new direct foreign investment for the Association of Southeast Asian Nations (ASEAN) countries, displacing the American role as the primary source of industrial growth for such countries as Thailand, Malaysia, and Indonesia. Japan also makes an important contribution to economic development and continued growth in Taiwan. Tokyo's regional economic influence can readily translate into political influence, potentially enabling Japan to influence the foreign policies of many East Asian countries.

More significant, however, than Japanese economic influence is its potential military capability. Chinese leaders frequently point out that power in the 21st century will increasingly rest on comprehensive national strength, and that economic and technological capabilities are central to the development of such power. Yet, the implications of this analysis are not only that economic capabilities will play an increasing role in great power competition, but also that technological and economic capabilities will be increasingly important in determining the strategic balance of power and the outcome of military competition. Certainly, the display of U.S. capabilities during the Gulf War revealed the post-Cold War continued importance both of military power and of technology in producing such power. Thus, Ding Henggao, head of China's Commission on National Defense, Science, Technology and Industry, pointed out that: "The explosive growth of modern technology is having an increasingly profound impact on military affairs"¹⁰ and that defense S&T (science and technology) "plays an

irreplaceable role in boosting China's defense capability and comprehensive national strength."¹¹

Chinese leaders are convinced that military capabilities will play a decisive role in great power relations and that Japan, despite its relationship with the United States and domestic political and societal restraints on military activism, is well positioned to be a formidable military great power. Japan's military acquisition program makes clear that Japan "harbors a strong desire to play a bigger military role in the world."¹² Although Japan has not developed significant offensive capabilities, the steady increase in its defense budget since the late 1970s has produced a modern and formidable defense establishment.¹³ Apart from the United States, Japan has more major warships than any other Asian country and any European member of NATO. It already deploys in Asia more submarines, escort ships and mine warfare units than the United States; indeed, after the U.S. Seventh Fleet completes its scheduled downsizing, Japan will have more major vessels in East Asia than the United States. Moreover, this is a new and modern navy, having been built in the last 15 years. Almost all of Japan's naval vessels are constructed and equipped with highly advanced technology, such as *Aegis* technology. Finally, Japan already possesses the technology to build, support, and manage aircraft carriers; it deployed aircraft carriers over 50 years ago during World War II.¹⁴

Japan is also constructing an advanced air force. Based on the technology of the U.S. F-16C/D, Japan's *FSX* will be far superior to any aircraft that China can manufacture, and it will be at least as capable as any aircraft China can import from Russia or from anywhere else, but with the important advantage of domestic production. Japan is also purchasing Airborne Warning and Control System (AWACS) aircraft from the United States. Thus, Japan possesses or is developing advanced conventional naval and air capabilities based on weaponry and technology far superior to that which China possesses or can look forward to developing during the next decade.¹⁵

Finally, China is concerned by Japan's determination to develop a sophisticated nuclear weapons program. Japan's interest in plutonium-based nuclear reactors and its advanced-technology civilian rocket program indicate Japanese possession of advanced strategic nuclear capability. One Chinese report noted Japanese stockpiling of plutonium and its acquisition of uranium enrichment, commenting that the only use of such minerals and technology is in the manufacture of nuclear weapons. It also observed that the capability of Tokyo's nuclear delivery systems rank Japan third, behind only the United States and Russia.¹⁶ Tokyo has also been developing the technology to construct advanced non-strategic missile systems with various ranges and deployments. "Spin-ons" of Japanese civilian technology to military uses is an important source of potential Japanese strategic power.¹⁷

This combination of Japanese economic resources and strategic potential creates heightened Chinese concern for Japan's future regional role. In many respects, Japan has the ability to "turn on a dime." Moreover, unlike policy-makers in the United States and other western countries, Chinese leaders give reduced weight to Japan's current reluctance to expand its military role in world affairs. While acknowledging that domestic opinion in Japan continues to restrain Tokyo's foreign policy options, Chinese leaders have a longer historical perspective on the role of domestic politics and culture on Japanese foreign policy. Japan's occupation of China during the 1930s and 1940s teaches that Japanese potential for domestic "militarism" can be as influential as "pacifism" and that such "militarism" can lead to regional instability with serious implications for Chinese security.

Thus, as Chinese leaders look toward the 21st century, they must be concerned about Japanese intentions. Indeed, not too long ago most of the research analysts in China's Central Military Commission reportedly concluded that Japan will become a major military power and, in the context of continued Soviet weakness, that it will target its strategy and capabilities against China, "challenging China

politically and militarily.”¹⁸ It is thus incumbent on Chinese leaders to develop a foreign policy toward Japan that consolidates the foundation of Sino-Japanese cooperation and that maximizes Tokyo’s incentive to de-emphasize the military instruments of diplomacy.

Consolidating Cooperation.

In many respects, China can draw considerable confidence from the current status of Sino-Japanese relations. For an historically troubled relationship and one that has considerable potential for heightened tension and conflict, the two sides have developed foreign policies and a bilateral relationship that suggests a long-term ability to manage and constrain the inevitable competition that will develop between two great powers in close proximity that are simultaneously developing expanded economic, political and military roles in East Asia—their common strategic backyard.

A crucial component of contemporary Sino-Japanese relations that helps reassure Chinese leaders of the prospects for long-term stability and contributes to Chinese ability to prepare for instability is bilateral economic cooperation. Sino-Japanese economic relations can provide the capital and technology required to modernize China’s economy and defense capabilities. Equally important, over the long-term it can provide powerful economic and social incentives for leaders in both countries to maintain cooperation and to find peaceful solutions to bilateral conflicts. To the extent that interest groups develop in Japan that benefit from Japanese participation in Chinese economic development, they can encourage politicians to consider compromise solutions to conflicts of interests. This dynamic is apparent in U.S.-China relations, in which U.S. business interests have been instrumental in the annual efforts by the White House to maintain China’s Most Favored Nation (MFN) trading status. Economic cooperation can create a foundation for cooperative relations which can exist amid developing political conflict.

Recent trends in Sino-Japanese economic relations are encouraging. Japan is China's largest trading partner. In 1995, total merchandise trade increased to nearly U.S. \$58 billion, a nearly 25 percent increase over 1994; China's imports from Japan grew by over 17 percent to nearly U.S. \$22 billion. Chinese exports to Japan play an important role in Beijing's efforts to accumulate hard currency. Exports grew by 30 percent to nearly U.S. \$36 billion, yielding China a U.S.\$14 billion trade surplus with Japan.¹⁹ Although this trade surplus may create friction with Japan, it is a manageable amount, especially insofar as Japan continues to run an overall trade surplus.

China is also an important export market for Japanese manufactured goods. In 1994, China was Japan's fifth largest export market, significantly contributing to Japanese employment and stable economic growth.²⁰ In the future, the Chinese consumer market should become increasingly important for Japan, as Chinese economic development spreads beyond coastal cities and major industrial centers, stimulating increased Chinese demand for high-end imported consumer goods.

Especially important for the economic and political relationship is the trend for Japanese investment in China. Through the 1980s and early 1990s, Japanese investors showed little interest in China. Through 1989, Japan had provided only 8 percent of the direct foreign investment in China and only 1 percent of Japan's total direct foreign investment and 6 percent of its direct foreign investment in Asia.²¹ The dearth of investment aroused suspicions in China over Japanese attitudes toward China, particularly insofar as the minimal investment led to little technology transfer.

This trend began a fundamental turnaround in 1992. Between March 1992 and March 1993, new Japanese investment in China increased by 87 percent over the previous year and three times that of 1989-90, while total Japanese overseas investment dropped by 18 percent. By 1993, Japan had become the fourth largest investor in China, surpassing Germany.²² Sino-Japanese investment

relations took another positive turn in 1995. In the first 6 months of 1995, actual Japanese capital input into China increased nearly 48 percent over the same period in 1994. More importantly, in 1995 large Japanese firms, including Matsushita, NEC and Toyota, began investing in large-scale Chinese manufacturing projects involving high-technology industries.²³ Japanese capital is now beginning to make a significant contribution to Chinese economic development. Moreover, this trend has important implications for the Sino-Japanese political relationship, creating a significant Japanese economic interest in stable political relations.

Finally, Japan's important loan program to China also contributes to Chinese economic development. Between 1979 and 1995, Japan's three *yen* loan packages for China amounted to approximately 1.6 trillion *yen*. The annual interest rate for the loans has been a mere 2.3 percent and China has 30 years to repay the loans, with an additional 10 years of "deferment." In preliminary negotiations for the fourth loan package covering 1996-98, Tokyo agreed to loan Beijing an additional 580 billion *yen* to help in the construction of 40 projects, including such important infrastructure projects as airports and water supply systems.²⁴ In the aftermath of the February 1996 earth-quake in Yunnan province, Japan also offered China U.S.\$300,000 in emergency aid.²⁵

Complementing the positive developments in trade relations have been constructive developments in political relations. In the aftermath of the June 1989 Tiananmen incident, Japan was the advanced industrial country least inclined to allow ideological considerations to interfere with bilateral ties. There was never any question that Japan would continue to grant *yen* loans to China and that trade relations would continue uninterrupted. Since then, bilateral summitry has been a common development in relations, including frequent trips back and forth by each country's prime minister and a historic visit to Beijing by the Japanese emperor. The dialogue in these meetings has been free of the friction that so often characterizes meetings

between U.S. and Chinese diplomats, despite the existence of various Sino-Japanese conflicts of interest.

The absence of ideological conflict has allowed Japan to engage Chinese leaders in a regular security dialogue. Since the two sides agreed to hold the security meetings in 1993, they have held three such meetings, the most recent in January 1996. Prior to the 1996 meeting, separate meetings had been held between foreign ministry and defense department officials. In 1996, Tokyo and Beijing held a joint session of diplomatic and defense officials, including Chinese General Xiong Guankai. Annual, low-profile meetings such as these offer regular opportunities for each side to express concerns about the other's defense and foreign policies, including trends in their respective defense budgets.²⁶ Bilateral dialogues can also be conducive to dealing with specific issues. After tensions developed in January 1996, in early March the Japanese and Chinese foreign ministers agreed to open bilateral talks over economic development of the waters surrounding the disputed Diaoyutai/Senkaku islands.²⁷

New Directions in Sino-Japanese Relations.

The cooperative trends in Sino-Japanese relations have been developing since the early stages of the post-Mao period, when extensive economic, societal, and diplomatic contacts became possible. Recent trends in Japanese security policy and in Japan's China policy have begun to elicit growing concern in the Chinese leadership. Chinese leaders must contend with what they perceive to be the emergence of a potential countervailing trend in Japanese foreign policy.

One aspect of this trend concerns U.S.-Japan security cooperation. Chinese leaders clearly understand that U.S.-Japan security cooperation plays an important role in restraining Japanese military development. But should they conclude that the post-Cold War U.S.-Japan relationship is moving from maintaining the option for Tokyo and Washington of enhanced future cooperation

against an unidentified threat toward contemporary strategic cooperation against China, Beijing would view U.S.-Japan security cooperation with considerable alarm.

Beginning in early March 1995, following the release of the 1995 U.S. Defense Department report on the East Asia Strategic Initiative, China began to express doubts about the direction of the U.S.-Japan relationship. Among the various aspects of the Pentagon report that aroused concern in Beijing was U.S. interest in strengthening U.S.-Japan strategic cooperation and American interest in bolstering specific Japanese defense capabilities. Beijing expressed concern that in the post-Cold War era, now that the Soviet threat had ended, America sought expanded strategic cooperation with Japan. China wondered whether this new direction in U.S.-Japan relations was in response to the "China threat" and if it was aimed at "containing" China.²⁸ Then, in February 1996, in preparation for President William Clinton's April visit to Tokyo, White House officials reportedly sought to include, in a joint U.S.-Japan statement on security, a reference to Chinese military modernization.³⁰

This trend culminated in April 1996, when President Clinton traveled to Tokyo for a U.S.-Japan summit, signed the U.S.-Japan Joint Declaration on Security, and reached agreement on Principles for U.S.-Japan Defense Cooperation. The agreements called for greater Japanese military responsibility in the alliance, including (for the first time) responsibility in joint defense operations throughout Asia, suggesting to Chinese leaders that the alliance could promote rather than inhibit the Japanese defense build-up and be used against China. Chinese media argued that the agreement was a "dangerous signal" that Japan has been "brought into U.S. global strategy" and that the agreement will "strengthen coordination with the actions of U.S. troops" in Asia.³⁰ It "gives the feeling" that the two countries "work hand-in-hand to dominate the Asia-Pacific region."³¹ The Chinese media also argued that the expansion of Japanese military activities "is bound to evoke the vigilance. . . against Japan's advance toward becoming a military power," and that in the long run,

there is no doubt that the aim is to keep a close watch on China.³²

Coinciding with the initiative in U.S. policy toward Japan has been a corresponding Japanese interest in bolstering its relationship with the United States in response to the development in Chinese power. Although concern for the Chinese military is not as great in Japan as in the United States, Chinese economic and defense modernization has elicited increased Japanese attention. Chinese military maneuvers during the 1996 Taiwan Straits crisis elicited increased Japanese attention to Chinese capabilities and led many Japanese to question the wisdom of reducing the U.S. military presence on Japan.³³ Coinciding with these developments is the prospect for U.S.-Japan strategic cooperation against Chinese security interests. In February 1996, Tokyo and Washington agreed to conduct a study on theater missile defense (TMD). Japanese sources also report that the United States, to heighten Japanese security concerns and encourage Japanese interest in cooperation with Washington on TMD, has shared with Tokyo strategic intelligence on China's nuclear capability.³⁴ The Chinese have argued that an East Asian TMD would be "clearly aimed at China." Should it be deployed, its primary effect will be to "render ineffective" China's limited second-strike nuclear capability, significantly enhancing Chinese vulnerability to U.S. military power and to potential Japanese nuclear capability. Chinese concern for the strategic consequences of TMD in East Asia have led Beijing to issue a warning that it would reconsider its commitment to participating in a comprehensive test-ban treaty should such a system be deployed.³⁵

China still sees considerable positive elements in U.S.-Japan cooperation. It is not opposed to the U.S.-Japan alliance or to the U.S. military presence in Japan. It has not concluded that the alliance is a net detriment to China's interests. On the contrary, Beijing still considers U.S. security ties with Japan a contribution to both Chinese security and regional stability, if only because the alternative—an independent Japan providing for its own

defense—remains a far more daunting prospect. There is now simply greater Chinese ambivalence toward U.S.-Japan relations and uncertainty concerning the outcome of the new trend in security ties.

The second disconcerting element in Japanese foreign policy is the new trend in Japan's China policy and the politics of policy making in Japan. Similar to the new dynamic in U.S. policy making, the demise of the Soviet Union reduced Tokyo's concern for Sino-Japanese strategic cooperation and opened the domestic debate in Japan over China policy. But perhaps even more important was the end of Liberal Democratic Party (LDP) domination of Japanese politics in early 1994. Chinese leaders were not pleased with the emergence of true two-party politics in Japan. Needless to say, Chinese communists are simply more comfortable dealing with one-party governments. But more important, Beijing was apprehensive over the impact of enhanced electoral competition on Japanese foreign policy. China expressed concern that Japanese politicians would have to appeal to mass sentiment to win votes and that domestic politics would play an increasingly significant role in Japanese policy making.³⁶

Since that time, Tokyo's China policy has elicited increased public debate, constraining the flexibility of Japanese policymakers. Of greatest concern to China is the development in Japan of a "Taiwan lobby." In mid 1995, after President Lee Teng-hui visited Cornell University in the United States, the Japanese government came under domestic pressure to allow the Taiwanese leader to visit Japan. Japanese opposition politicians pressed for the government to grant Lee a visa to visit Kyoto University, his undergraduate institution, or to invite him or Taiwan Vice Premier Hsu Lee-teh to attend the November 1995 Asia-Pacific Economic Cooperation (APEC) summit in Osaka. China warned that any such visits would place the relationship "in the greatest danger" and Chinese President Jiang Zemin promised to boycott the APEC meeting should either Taiwanese leader attend.³⁷ Ultimately, Japan succumbed to Chinese pressure and Taiwan was

represented in Osaka by Ku Chen-fu, head of Taiwan's Straits Exchange Foundation.

Nonetheless, the trend in Japanese politics was clear. Throughout 1995, politicians from various political parties in Japan were calling for enhanced Japanese-Taiwanese diplomatic contacts. In response, Beijing criticized "pro-Taiwan forces" and warned the Japanese government to oppose any pro-Taiwan activities in Japan. When it seemed that a Japanese cabinet member might participate in a pro-Taiwan demonstration, Beijing made "solemn representations" with the Japanese Foreign Ministry.³⁸

Then, during the 1996 Taiwan Straits crisis, hard-line members of the Liberal Democratic Party, reacting to China's military maneuvers, demanded that the Japanese government freeze its *yen* loans to China. The Japanese Foreign Ministry has been accused of being "weak-kneed" toward China, but in response to the political pressure, the government was compelled to postpone its talks with Beijing over the third round of Japanese *yen* loans. Japanese Foreign Minister Yukihiko Ikeda advised Chinese Foreign Minister Qian Qichen that in reaction to Chinese nuclear testing and its Taiwan policy, voices in Japan had called for a review of loan program.³⁹ When asked about the prospect that Japan might freeze the loans, China's foreign ministry spokesman responded that China "would like to send a very clear and unmistakable message to the Japanese side, which is that the issue of Taiwan is purely an internal matter of China which brooks no foreign intervention or interference of any kind."⁴⁰ Nevertheless, the "Taiwan issue" is now embedded in Japanese politics, adding an important element of uncertainty to Sino-Japanese relations.

Japanese domestic politics have affected other aspects of Japan's China policy. Japan's response to Beijing's nuclear testing program has elicited Chinese concern. Faced with domestic opposition to Japanese acquiescence to Chinese testing, in September 1995 the Japanese government froze its grant aid to China. Although the amount of the aid was relatively nominal and China issued a low-key reaction,

Chinese commentary pointed to domestic forces in Japan that opposed Chinese modernization and Sino-Japanese cooperation and expressed concern for the prospects for the relationship.⁴¹

The recent tension between Japan and South Korea and Japan and China over disputed islands may also reflect the influence of Japanese domestic politics. In conjunction with its ratification of the Law of the Sea, the Japanese government is under pressure to formally establish a 200-mile economic zone around all Japanese territory. The prospect of such legislation has led to demonstrations throughout South Korea and tension in South Korean-Japanese relations. Beijing's apparent response to Japanese intentions was to send vessels to carry out short-term trial oil drills in the vicinity of the Diaoyutai Islands. In so doing, Beijing likely meant to reassert its claims to the islands while, more quietly than South Korea, warning Japan to avoid placing the dispute high on the bilateral agenda.⁴² Japan's changing domestic environment will continue to contribute to Chinese apprehension and uncertainty over the Japanese foreign policy. Although Chinese leaders believe that Japanese policymakers and leading politicians continue to place importance on Sino-Japanese relations and wish to maintain cooperation with China, they also understand that Japanese domestic political instability is a potential source of policy change, insofar as Japanese policymakers could allow political considerations to determine policy. The Taiwan issue, economic relations and other bilateral issues could become hostage to Japanese partisan politics.⁴³

The combination of Japan's changing strategic relationship with the United States and the politicization of China policy in Japanese domestic politics creates an important element of uncertainty in China concerning the future of Japanese foreign policy, its implications for Chinese security, and for the course of Sino-Japanese relations. How Chinese foreign policy responds to these new challenges to Sino-Japanese relations will be critical in

determining the course of the relationship and the politics of East Asia.

Managing a Changing Relationship.

China's impact on Japan's China policy falls into three categories. The first is Beijing's strategic response to Japanese capabilities and the trend in the bilateral balance of power. The second is Beijing's response to immediate issues in the bilateral relationship and to emerging trends in Japan's China policy. The third category comprises those Chinese policies not necessarily aimed at Japan but which impact Japan's China policy, including policy toward third parties. In each case, the implications of Chinese policy for bilateral relations and Chinese policy alternatives need to be addressed.

China's most fundamental and long-term policy response to the Japanese challenge is economic modernization and, specifically, defense modernization. Beijing cannot but look at Japan's technological and military superiority over China and the prospect that the gap might actually widen before it begins to narrow without considerable apprehension. From this perspective, Chinese leaders express their true intention when they insist that China needs a peaceful international environment in which to modernize its economy and develop the foundation of comprehensive national strength.⁴⁴ The longer China can focus its scarce domestic resources on economic modernization, the more secure it will be if and when heightened tension returns to East Asian politics.

But, while laying the economic foundation for national security, Chinese leaders have also decided that they must begin the process of military modernization. To wait to acquire modern weaponry and reduce China's strategic vulnerability until the security situation requires it would ensure Chinese strategic inferiority when the weaponry is needed most. This is as true for nuclear weaponry as it is for conventional weaponry, insofar as the long-term survival of China's second-strike capability is in doubt. Ding

Henggao made this point when explaining why China needs to modernize its defense capability:

The grim reality is that in a world characterized by turbulent international politics and fierce competition in military high-tech, a nation that fails to work hard to raise its level of defense S&T and upgrade its defense capability . . . would find itself in a vulnerable position once war breaks out, with devastating effects on its national interests, national dignity, and international prestige.⁴⁵

What most concerned Ding was the long way that China's defense capabilities had to go to meet world standards:

China's defense S&T has come a long way but still trails the best in the world. To master modern technology, especially to meet the demands of high-tech war, we must overcome many hurdles, including the shortage of funds, technology, and qualified personnel . . . the situation . . . compels us to work hard for several years to bring our defense S&T and weaponry to a level to meet the needs of future high-tech war.⁴⁶

This strategic imperative drives China's increasing defense budget, purchases of foreign weaponry (including advanced Russian aircraft and naval vessels), and nuclear testing. Japan, as much as any other country, could become China's strategic rival, posing a daunting defense agenda for China's People's Liberation Army (PLA). But China's strategic response to vulnerability also contributes to Sino-Japanese friction, insofar as it elicits Japanese fears of a "China threat," and the prospect of transformed Japanese intentions, leading Japan to adopt those very policies that China is trying to prevent. Embedded in China's response to the imbalance in the Sino-Japanese relationship is the potential for a self-fulfilling prophesy.

It is not clear how China's defense policy can ameliorate this dilemma. China's 1996 budget calls for a modest (when adjusted for the inflation rate) 10 percent increase in defense spending.⁴⁷ Nevertheless, as long as China's absolute defense budget continues to increase by double-digit figures and the PLA seeks foreign weaponry to correct its strategic vulnerability, China's defense

modernization efforts will attract attention in Japan. This puts the burden of maintaining stable Sino-Japanese relations and Japanese confidence in Chinese intentions on Chinese diplomacy. It also requires that Chinese leaders manage Sino-Japanese conflicts of interest with sufficient subtlety both to protect Chinese interests and not elicit Japanese apprehension.

China's response to the recent developments in Japanese foreign policy and China policy has been to place increased pressure on Japan to reconsider its policy priorities. Much of this pressure is reflected in greater Chinese media attention to the potential for renewed "militarism" in Japan and to worrisome developments in Japanese foreign policy. In the aftermath of the Chinese government crackdown of the Beijing democracy movement on June 4, 1989, Chinese scholars and journalists were instructed not to write negative reports about Japan.⁴⁸ In 1995, that restriction was lifted and the Chinese media began an active campaign against a wide range of Japanese behavior. Most prominent was Chinese media coverage of the 50th anniversary of the end of World War II, which relentlessly attacked the atrocities of the Japanese occupation of China and ominously warned of the potential for revived militarism in contemporary Japan. But perhaps more important was Chinese coverage of Japanese military capabilities. Until 1995, with the exception of commentary on the size of the defense budget, there was a clear restriction against any coverage of Japanese defense policy. In 1995, for the first time, Chinese analysts discussed Japan's military capabilities and its advanced weaponry, including its nuclear program. In so doing, China was not only signaling Japan its concern for trends in Japanese defense policy, but also the risk of heightened Sino-Japanese tension resulting from "China threat" charges and corresponding changes in Japanese defense policy. One Chinese report observed trends in Japanese defense policy and warned that the "situation in Japan is somewhat similar to that in pre-war Japan. What road will Japan take?—this question definitely cannot be ignored."⁴⁹

Chinese use of the media is a convenient and low-profile approach to general trends in Japanese foreign policy. More difficult for Chinese diplomats to manage are specific Japanese policy initiatives. One such issue is the territorial dispute in Sino-Japanese relations. The Diaoyutai/Senkaku dispute has existed since 1949, yet both countries have preferred to keep the issue off the bilateral agenda. Ideally, China would ignore form and focus on substance regarding the dispute, or simply respond with similar legislation, which it will likely do in 1996. Yet sensitivity to sovereignty issues seems to combine with succession politics to compel a more active Chinese response. Thus, Beijing dispatched a drilling vessel to the disputed waters. Using its media, it also quietly sided with South Korea in its conflict with Japan over the disputed island of Tokto/Take, thus urging caution on Japanese handling of the Sino-Japanese dispute.⁵⁰ Nonetheless, these were low-key responses. They did not involve either military vessels or public recriminations requiring a Japanese response. Moreover, because Japan has minimal interest in developing the waters around the disputed islands, this should remain a manageable issue.⁵¹

Another issue requiring a Chinese response is Japan's increasing desire to gain a permanent seat on the UN Security Council. It is clear that China is opposed to Japanese permanent membership on the committee. China clearly prefers the current situation, in which it has the advantage over Japan regarding Security Council deliberations over regional issues. Moreover, Beijing cannot look forward to the prospect of U.S.-Japan cooperation in the Security Council. Thus, China frequently asserts that it is not yet appropriate to consider Japanese permanent membership on the Security Council. One discussion of Security Council reform went so far as to assert that "it is absolutely impermissible to grant the veto to newly admitted permanent members."⁵²

Beijing should be able to manage this issue, as well. China has not drawn any lines in the sand and there remains a wide-ranging and inconclusive debate on UN

reform, suggesting that the issue may linger for awhile and that Beijing will not have to take the lead in resisting far-reaching reform. Equally important, should an international consensus emerge that Japan should have permanent member status with the veto, Beijing would most likely not stand in the way. Similarly, China appears to have acquiesced to growing Japanese participation in UN peacekeeping activities, despite the implications for Japanese receptivity to the use of military instruments in diplomacy.⁵³

Chinese leaders seem intent on preventing bilateral issues from disrupting Sino-Japanese cooperation. Although China continues to modernize the PLA, refuses to move off long-held positions (such as sovereignty over disputed territories and Japanese membership on the UN Security Council), and warns of the consequences of revived Japanese "militarism," it has maintained a low-profile on Sino-Japanese disputes. There is evidence that China understands the risks entailed in an overly contentious Japan policy. But what is less clear is whether China can manage the consequences for Sino-Japanese relations of third party issues and nonforeign policy issues.

The factors affecting Japan's China policy are not limited to Chinese policy toward Japan and Chinese defense policy. China's mere size and proximity to Japan ensures that various aspects of Chinese politics and foreign policy will be contentious issues in Japanese politics and that Japanese policymaking will reflect the political considerations of Japanese leaders contending for power in an uncertain electoral environment. Moreover, many of these issues are not readily amenable to Chinese diplomatic management.

China's human rights policies could destabilize Sino-Japanese relations. Renewed violent repression of dissent in China in the post-Deng period or even simply excessive authoritarian policies in Hong Kong after 1997 would likely elicit far greater public outcry and political and policy repercussions in Japan than did the June 4th tragedy. The Japanese public is increasingly disinclined to be tolerant of Chinese human rights violations, and Japanese

politicians are increasingly disinclined to ignore voter sentiment in policymaking.

Chinese conflict with third parties will also affect Japanese attitudes toward China. Taiwan's foreign policy and U.S. policy toward Taiwan, themselves susceptible to recurring domestic instability in all three parties, may well determine the trend in cross-Straits relations, eliciting additional mainland-Taiwan crises which could undermine support in Japan for cooperative relations with China and for restraint in Japanese defense policy. Insofar as Taiwan is the mainland's most important foreign policy issue, it will be difficult for Chinese leaders to moderate policy toward Taiwan to maintain cooperative relations with Japan. Should U.S.-China relations deteriorate due to heightened conflict over any of the numerous conflicts of interest in U.S.-China relations, Japan will come under increased pressure to cooperate with U.S. policy and to contribute to American efforts to "contain" China. Yet, U.S.-China relations are equally unpredictable and potentially unmanageable, influenced as much by American domestic politics, third party issues, and U.S. policy on a wide range of bilateral conflicts of interests as by Chinese behavior. Equally troublesome for Sino-Japanese relations could be conflict between China and the other claimants to the disputed Spratly Islands in the South China Sea. Insofar as heightened conflict would suggest Chinese expansionism along the shipping lanes to Persian Gulf oil, support would likely grow in Japan for greater strategic cooperation with the United States.

On the other hand, enhanced cooperation between China and third parties, which China does have considerable ability to control, could also influence Sino-Japanese relations. Of particular importance is Sino-Russian relations. The combination of potential Sino-Japanese conflict with ongoing Japanese-Russian rancor over the Northern Territories and lack of economic cooperation prepares Japan to see "collusion" in Sino-Russian relations. In this respect, Beijing must be sensitive to the effect of growing cooperation between China and Russia, including

Russian arms sales to China and close ties between the civilian and military leaderships, on Japanese policy-making. Although less strategically prominent and of less immediate importance, Sino-South Korean cooperation has a similar potential to arouse anxiety in Japan. China and South Korea share distrust of Japanese "militarism" and for the trend in Japanese defense procurement policies. Beijing's decision to side subtly with Seoul in its territorial dispute with Tokyo suggests that Beijing is aware of Japanese concern and that it is willing to insinuate greater Chinese-South Korean cooperation to pressure Japan to consider Chinese interests. Yet, incautious Chinese cooperation with South Korea could spur Japan to adopt strategic measures detrimental to Chinese security and Sino-Japanese cooperation. China can draw comfort from its cooperative political relationships with Russia and South Korea, but it must manage these relationships so as not to harm its equally important interest in Sino-Japanese cooperation.

The danger in all of these potential developments is that Chinese policy on domestic or third party issues could elicit the very Japanese foreign policy that Beijing's bilateral Japan policy attempts to forestall. Yet, policymaking on all of these issues has its own domestic and bilateral dynamic. It requires policy-making sophistication and domestic political confidence to consider the multitude of cross-cutting interests involved in "grand strategy" when making policy on such intrinsically important and politically sensitive issues as Taiwan, Hong Kong, human rights, Spratly Islands, U.S.-China relations and Sino-Russian relations. Moreover, many of these issues, such as the Taiwan issue and repressing domestic dissent, entail interests which Chinese leaders consider more important than stable bilateral relations with Japan and which entail a mixture of sovereignty and succession politics, thus reducing Beijing's incentive to consider the implications for Sino-Japanese relations of policy toward these interests. But whether Beijing is simply reacting or taking the initiative, its policy on any of these issues could derail Sino-Japanese cooperation.

Conclusion.

Chinese management of its Japan policy is not only crucial to vital Chinese interests but also to regional stability. Japan has the potential both to contribute to Chinese economic modernization and security and to develop and use region-wide military, political and economic instruments to retard Chinese economic development and to undermine Chinese security. Heightened Sino-Japanese cooperation can underpin regional stability and economic cooperation, but heightened conflict has the potential to polarize all of East Asia into competing blocs, undermining the region's ability to continue its successful pursuit of economic growth and the development of regional stability with multilateral institutions of cooperation. Much is riding on Chinese policy and the course of Sino-Japanese relations.

To protect Chinese security and maintain Sino-Japanese cooperation, Beijing must weave together a wide range of potentially contradictory policies. Its defense policy is a necessary hedge against the possibility of deteriorated relations with a superior economic, technological and even military power. But China's defense budget and its acquisition of advanced foreign weaponry has the potential to elicit Japanese policy detrimental to Chinese interests. The burden rests on Beijing's bilateral Japan policy to have a countervailing impact on bilateral relations. But, Sino-Japanese relations have become increasingly complex. The end of the Cold War and the decline of LDP dominance in Japanese domestic politics have undermined Tokyo's ability to take the long view of Sino-Japanese relations and to continue to shelve what had been secondary conflicts of interest. The resulting new points of friction, as well as enhanced U.S.-Japan strategic cooperation, have complicated bilateral relations and added an element of doubt to Chinese confidence in Sino-Japanese cooperation.

Complications in Sino-Japanese relations have elicited a more outspoken Chinese policy toward Japan. The Chinese media are once again covering trends considered counterproductive to Beijing, including alleged revival of

militarism and Japanese defense spending. They have been critical of elements of Japanese policy toward China, including Tokyo's relationship with Taiwan, its handling of the *yen* loan program, and its policy on disputed territories. Nonetheless, Beijing continues to evaluate favorably the trend in Japanese foreign policy and its Japan policy reflects this. It has maintained a low-key approach to conflicts of interest, trying to caution Japan from adopting contentious policies, while trying to maintain cooperative relations. Its bilateral Japan policy reflects the cross-cutting pressures that Japan poses to Chinese interests.

If Sino-Japanese relations existed in a vacuum, relations would be relatively easy to manage. But there exists a wide range of external factors (ranging from Chinese treatment of dissidents and the Taiwan issue to U.S.-China and Sino-Russian relations) that could affect Japanese policy-making and redirect the relationship, despite Chinese intentions to maintain stable relations. China's control over the course of these issues is, at times, minimal. At other times, leadership incentive and/or ability to incorporate China's interest in stable Sino-Japanese relations into policymaking is minimal. And affecting the entire spectrum of issues is the fact that Japan is a democracy and Chinese leaders are celebrated for their inability to consider the implications of their own behavior for the politics of China policy in democracies.

Sino-Japanese relations do not exist in a vacuum. Chinese leaders will have to exercise considerable tolerance, patience, and sophistication to maintain cooperative relations with Japan in increasingly complex circumstances. Thus far, they have shown the ability to develop a Japan policy which responds to the numerous challenges to Chinese interests. Nonetheless, given the fact that the challenges will likely grow and relations with Japan will likely become more complex, China's Japan policy and Sino-Japanese relations must be considered one more factor contributing to the uncertainty of Asia after the Cold War.

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