

The Political Influence of Economic Dependence in Japan's China Policy since the Koizumi Administration

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Past studies have contended that increasing economic interdependence between China and Japan has failed to lead the countries to reconcile their difficult political relations. But they have made their observations rather generally, without elaborating specific reasons why heightened commercial exchange has failed to produce a more positive political relationship. This paper seeks to analyze and develop one side of these studies' claim by examining Japan's economic dependence on China in the early twenty-first century. First, it lays out the puzzle that while China has become Japan's primary trading partner and destination for foreign investment, Tokyo has generally avoided moderating its political policies toward Beijing. Then, after identifying three hypothetical causal linkages across which economic dependence has been theorized to reduce political conflict, it inspects whether Japan's economic dependence on China has operated through these linkages to foster rapprochement in Japan's China policy. From investigation of available data, it is apparent that economic dependence has moderated Japan's China policy in some instances. Yet, by and large, there has been little pressure to stimulate recalibration in Japan's behavior toward China, while various domestic elements have also inhibited change in Tokyo's approach to Beijing. In these findings on the limited political influence of economic dependence, the paper provides qualified support to the past studies' contention, and sheds light on specific reasons why economic dependence has not diminished the political difficulty in Japan's interaction with China.

I. Introduction

In the decade since Koizumi Junichiro became Japan's prime minister in April 2001, the orientation of Japanese trade and foreign investment witnessed a substantial shift toward China. In 2004 China with Hong Kong became Japan's largest trading partner, in 2007 China by itself became Japan's leading trading partner, and in 2010 China with Hong Kong became the top destination for Japan's outward foreign direct investment. Yet, contrary to the positive trend in Japan's economic activity with China, in the political realm, Tokyo's relationship with Beijing

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was generally mired by contention, caution, and a lack of accommodative policies. Japan had no direct summit-level meetings with China for four years due to Koizumi's insistence on visiting the Yasukuni shrine, and there were few instances of Tokyo taking steps to soften its policies toward China under his rule. But even under later prime ministers who met with China's leaders, including those prime ministers who were avowedly pro-Asian in their international vision, Japan did not significantly amend its policy toward China.

Noticing the apparently divergent nature of Japan's economic and political interaction with China in this period, past studies (Yahuda, 2006; He, 2008; Buszynski, 2009) asserted that Japan's increasing economic dependence on China was not leading Tokyo to moderate its political approach toward Beijing. In general, however, these studies made their observations without explaining precisely why heightened commercial exchange was not positively influencing Japan's political relationship with China. They left the reader to ponder the empirical reasons why increasing trade and investment were not generating a corresponding improvement in Tokyo's policy toward Beijing.

This paper seeks to pick up where previous studies left off by examining the concrete factors why economic dependence did not lead Japan to reconcile its political interaction with China. First, it briefly describes the puzzle of Japan's economically reliant yet politically strained relationship with China since the Koizumi period. Next, it sets out three hypothetical causal linkages across which economic dependence has been theorized to reduce conflict between states. Third, it inspects how Japan's economic dependence on China operated through these proposed linkages to promote rapprochement in Tokyo's policy toward Beijing. Based on the findings of this investigation, the paper concludes by discussing specific reasons why heightened economic interaction has not brought Tokyo politically closer to Beijing.

II. Divergence in Japan's Economic and Political Interaction with China

Japan's trade and investment with China was significant before Koizumi became prime minister, and further expanded during and after his administration. Prior to Koizumi's ascendancy, Japan's trade and investment with China began increasing substantially from the late 1970s, when China under Deng Xiaoping initiated a series of market reforms aimed at advancing the country's economic development. An important part of these reforms was the creation of special economic zones (SEZ) that focused on export-oriented development. By offering appealing tax breaks and inexpensive labor, SEZ attracted a wave of FDI to fuel China's economic growth. While businessmen from Hong Kong and Taiwan were initially the main suppliers of FDI into China's SEZ, by the early 1990s Japan had caught onto the trend and its FDI in China was second only to Hong Kong's (Selden, 1997: 328). Moreover, since Hong Kong's investment in China was largely a result of the territory's geographical proximity to the mainland and thus had a "suburban" character, Japan's investment was effectively the largest in China coming from a truly foreign source (MacIntyre & Naughton, 2005: 83). At the time, most Japanese investment was targeted at establishing bases for material- and energy-intensive industries that would export their products back to Japan (Alvstam et al, 2009: 202).

In the uncertain aftermath of the 1989 Tiananmen Square incident, which cast doubt over the continuation of China's market reforms, Deng made a "southern tour" of Guangdong province in February 1992 to advocate further economic restructuring. After Deng's visit, China resumed its transformation to a market economy and received a second surge of FDI. However, due to the burst of the Japanese economic bubble at the start of the 1990s, Japanese businesses were relatively reluctant to ride this next wave of investment. While businesses from Hong Kong, Taiwan, the US and the European Union poured investment into China from 1993 onward,

Japan's corporate and government leaders hesitated to export jobs and promote the "hollowing out" (*kudoka* in Japanese) of Japan's industrial capability. Simultaneously, Japanese banks, facing their own domestic problems, decelerated the growth of their lending in East Asia. As a result, Japan's position in the China-bound FDI rankings slipped to fifth between 1993 and 2000 (MacIntyre & Naughton, 2005: 89). Only in the late 1990s, and especially after the 1997 Asian financial crisis, did Japanese manufacturing industries start reinvesting in China, both to establish bases for exports to third countries and to produce for the burgeoning Chinese domestic market (Alvstam et al, 2009: 202). Given Japan's industrial strength, prominence in the industrial sectors propelling much of the investment in East Asia, geographic closeness to China, and large economic size, its performance in the Chinese market in the 1990s was, according to some observers, "extremely poor" (MacIntyre & Naughton, 2005: 89).

Seeing China's booming growth at a time of domestic economic stagnation, some Japanese began to view China as an economic challenger at the end of the twentieth century, and these years saw the advent of the "China threat" theory (*zhongguo weixie lun* in Chinese; *chugoku kyoi ron* in Japanese) in Japan (Ohashi, 2004: 182-184; Sutter, 2005: 137). In mid-April 2001, days before Koizumi became prime minister, Japanese fear about the Chinese economy reached its peak. Partially in response to Liberal Democratic Party (LDP) pressure ahead of the upcoming House of Councilors election in July, the Japanese government imposed temporary safeguards to reduce the imports of leeks, shiitake mushrooms, and reed mats for tatami flooring. Because these items were mainly imported from China, Beijing retaliated in June by declaring 100 percent duties on imports of Japanese automobiles, cellular and car phones, and air conditioners. Since the value of the Chinese sanctions on the Japanese goods was as much as eight times the value of the Japanese sanctions on the Chinese goods and threatened Japanese

automobile manufacturers with 420 billion yen in lost sales, the Japanese government retracted its tariffs and stopped considering duties that would affect other Chinese imports by the end of the year (Ross, 2007: 131-132).

Following the 2001 tariff dispute, Japan worked with China to promote cooperation in their bilateral economic relationship, with Koizumi and Chinese Premier Zhu Rongji agreeing to set up the China-Japan Economic Partnership Consultation as a formal dialogue to manage trade issues at the first Boao Forum in April 2002 (Mochizuki, 2004: 111). At the forum, Koizumi also proclaimed, “Some see the economic development of China as a threat. I do not. I believe that its dynamic economic development presents challenges as well as opportunity for Japan” (Prime Minister of Japan and His Cabinet, 2002). With the tariff dispute’s resolution and these optimistic words by Koizumi, Japan for the first time appeared to accept that the flourishing Chinese market would be highly important for Japanese businesses, if not essential for rescuing Japan from its economic recession. Soon thereafter, prominent Japanese economic opinion leaders such as Watanabe Toshio, Seki Mitsuhiro, and Ohmae Kenichi echoed Koizumi’s opinion on the significance of the rapidly developing Chinese economy for Japan. Respectively, they emphasized that China was the rationally optimal location for Japanese manufacturers to establish production facilities in lowest value-added “midstream” section of the value chain (between the “upstream” R&D and “downstream” marketing sections); that Japanese companies must ally themselves with Chinese companies to produce consumer products in the highly competitive Chinese market, or face the scenario of having no future; and that because “the economic boundaries of China and Japan will become seamless,” Japanese firms should transfer production sites to China, where they can make products suitable for Japanese demand at the lowest cost and conduct routine office work (Abe, 2003: 125-128).

After this shift in views in 2002, the year in which China entered the WTO, China's economic "threat" was rarely discussed in the Japanese press by 2003, and that year the country became the second-largest destination for Japanese FDI after the US (Takahashi, 2005: 10; Takahara, 2008: 221).² As part of this shift, Japanese businesses began recognizing that final assembly in China "was no threat to [Japan's] prosperity, so long as it used Japanese standards, with Japanese designed parts, on Japanese production equipment, built in Japan," and they encouraged the division of labor with China, so long as it left key technological innovation in Japan (Samuels, 2007: 160). In 2004, China including Hong Kong became Japan's largest trading partner, and in 2005 two-way trade between China and Japan exceeded \$100 billion and Japan was China's largest trading partner, while mainland China was Japan's second largest trading partner after the US (Mochizuki, 2005: 143). In the first half of 2006, during Koizumi's last months in office, Japan's investment in China rose to almost seventeen percent of its total outflow and eclipsed Japan's investment in the US (Medeiros et al., 2008: 37).

After Koizumi stepped down and new Prime Minister Abe Shinzo stepped up in September 2006, Japan's trade with China continued to increase, reaching fifteen percent of Japan's exports and 20 percent of its imports in 2007. The same year, China's trade with Japan accounted for eight percent of China's exports and thirteen percent of its imports, indicating that Japan's reliance on the Chinese market had become greater than China's reliance on the Japanese market, and that commercial exchange with Japan had become a relatively less significant part of China's overall trade portfolio than previously. Moreover, in 2007, Japan's total exports and imports with China eclipsed its total with the US, signaling that China had become Japan's leading trade partner (Pekkanen, 2010: 200-201). Exports to China were a crucial component of

² Still, there were exceptions that warned of the dangers of doing business with China. For an example, see Miyazaki (2006).

Table 1. Japan's Trade with China and the United States, 1995-2009

Year	China						United States					
	Exports		Imports		Aggregates		Exports		Imports		Aggregates	
	Amount	Y/Y %	Amount	Y/Y %	Balance	Total	Amount	Y/Y %	Amount	Y/Y %	Balance	Total
1995	20620	7.7	33089	20.3	-12469	54428	113330	-5.8	70764	10.1	42566	184094
1996	23824	15.5	43997	30.1	-20173	67820	121771	7.4	86310	22	35461	208081
1997	26307	10.4	50617	15	-24310	76924	141689	16.4	91493	6	50196	233182
1998	26209	-0.4	48441	-4.3	-22232	74650	154700	9.2	87781	-4.1	66919	242481
1999	26574	1.4	48754	0.6	-22180	75328	146053	-5.6	76395	-13.1	69658	222448
2000	32744	23.2	59414	21.9	-26670	92158	153559	5.1	77789	1.8	75770	231347
2001	37637	14.9	70267	18.3	-32630	107904	147111	-4.2	76715	-1.4	70396	223825
2002	49798	32.3	77278	10	-27480	127076	148733	1.1	72372	-5.7	76361	221105
2003	66355	33.2	87311	13	-20965	153666	134122	-9.8	68250	-5.7	65872	202371
2004	79942	20.5	101990	16.8	-22048	181932	137307	2.4	67634	-0.9	69673	204941
2005	88369	10.5	119754	17.4	-31385	208123	148055	7.8	70743	4.6	77312	218797
2006	107937	22.1	137844	15.1	-29907	245781	169336	14.4	79112	11.8	90224	248448
2007	128390	18.9	150355	9.1	-21965	278745	168962	-0.2	83487	5.5	85475	252449
2008	129499	0.9	148304	-1.4	-18805	277803	142143	-15.9	80396	-3.7	61747	222539
2009	102356	-21	114360	-22.9	-12004	216716	87334	-38.6	55123	-31.4	32211	142457

Units: ¥100 Million, %

Notes: "Y/Y %" indicates year on year change. Positive balance indicates trade surplus, while negative balance indicates trade deficit. Statistics for China do not include Hong Kong. Total is the sum of export and import amounts.

Source: Major Export and Import Flows, Customs Office, Japan Ministry of Finance (Zaimusho Kanzeikyoku, 2011)

Table 2. China and the United States' Shares of Japan's Total Exports and Imports, 1995-2009

Year	China				United States				World	
	Exports		Imports		Exports		Imports		Exports	Imports
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Amount
1995	20620	5	33089	10.7	113330	27.3	70764	22.4	415309	315488
1996	23824	5.3	43997	11.6	121771	27.2	86310	22.7	447313	379934
1997	26307	5.2	50617	12.4	141689	27.8	91493	22.3	509380	409562
1998	26209	5.2	48441	13.2	154700	30.5	87781	23.9	506450	366536
1999	26574	5.6	48754	13.8	146053	30.7	76395	21.7	475476	352680
2000	32744	6.3	59414	14.5	153559	29.7	77789	19	516542	409384
2001	37637	7.7	70267	16.6	147111	30	76715	18.1	489792	424155
2002	49798	9.6	77278	18.3	148733	28.5	72372	17.1	521090	422275
2003	66355	12.2	87311	19.7	134122	24.6	68250	15.4	545484	443620
2004	79942	13.1	101990	20.7	137307	22.4	67634	13.7	611700	492166
2005	88369	13.5	119754	21	148055	22.5	70743	12.4	656565	569494
2006	107937	14.3	137844	20.5	169336	22.5	79112	11.7	752462	673443
2007	128390	15.3	150355	20.6	168962	20.1	83487	11.4	839314	731359
2008	129499	16	148304	18.8	142143	17.5	80396	10.2	810181	789547
2009	102356	18.9	114360	22.2	87334	16.1	55123	10.7	541706	514994

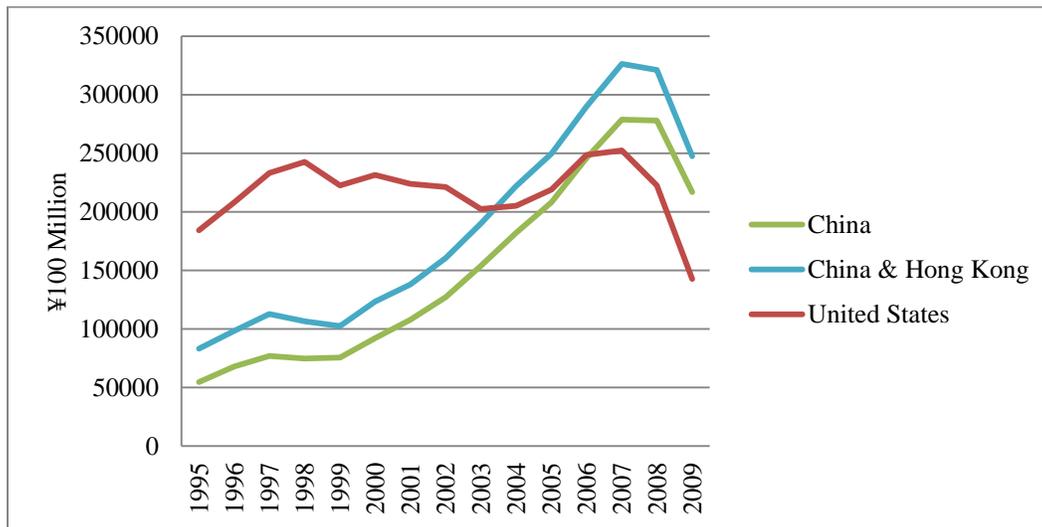
Units: ¥100 Million, %

Source: Major Export and Import Flows, Customs Office, Japan Ministry of Finance (Zaimusho Kanzeikyoku, 2011)

Table 3 & Figure 1. China and the United States' Shares of Japan's Total Trade, 1995-2009

Year	China		China & Hong Kong		United States		World Total
	Total	Share	Total	Share	Total	Share	
1995	54428	7.4	82995	11.4	184094	25.2	730796
1996	67820	8.2	98221	11.9	208081	25.2	827247
1997	76924	8.4	112623	12.3	233182	25.4	918942
1998	74650	8.6	106405	12.2	242481	27.8	872987
1999	75328	9.1	102433	12.4	222448	26.9	828156
2000	92158	10	123252	13.3	231347	25	925926
2001	107904	11.8	137934	15.1	223825	24.5	913948
2002	127076	13.5	160619	17	221105	23.4	943365
2003	153666	15.5	189776	19.2	202371	20.5	989104
2004	181932	16.5	221999	20.1	204941	18.6	1103866
2005	208123	17	249543	20.4	218797	17.8	1226059
2006	245781	17.2	289939	20.3	248448	17.4	1425905
2007	278745	17.7	326166	20.8	252449	16.1	1570674
2008	277803	17.4	321194	20.1	222539	13.9	1599728
2009	216716	20.5	247497	23.4	142457	13.5	1056700

Unit: ¥100 Million, %



Source: Major Export and Import Flows, Customs Office, Japan Ministry of Finance (Zaimusho Kanzeikyoku, 2011)

Table 4. Japanese Outward FDI Flow (Based on Balance of Payments, Net)

Year	China	Hong Kong	China & Hong Kong	United States	World
1987	1671	n.a.	n.a.	9641	19519
1988	2071	n.a.	n.a.	18969	34210
1989	3427	n.a.	n.a.	21238	44130
1990	2640	n.a.	n.a.	25584	48024
1991	1000	n.a.	n.a.	15213	30726
1992	617	n.a.	n.a.	-8914	17222
1993	293	n.a.	n.a.	6755	13714
1994	1614	n.a.	n.a.	6193	17938
1995	3183.478	334.2222	3517.7	9018.299	22651.18
1996	2317.449	1111.853	3429.302	11113.92	23443.33
1997	1862.291	1755.228	3617.518	7430.279	26057.28
1998	1300.791	823.2814	2124.073	6013.465	24626.51
1999	360.2477	-236.249	123.9984	7140.178	22266.47
2000	933.5477	-132.218	801.3298	14121.41	31533.91
2001	2157.659	496.0714	2653.73	7031.409	38495.11
2002	2621.552	229.0755	2850.628	7440.618	32039.04
2003	3979.966	-61.5834	3918.382	10690.88	28767.08
2004	5862.601	490.8111	6353.412	7558.661	30961.68
2005	6575.089	1781.562	8356.651	12126.38	45460.61
2006	6169.089	1508.943	7678.032	9296.555	50164.52
2007	6218.237	1131.3	7349.538	15672.2	73483.06
2008	6495.993	1301.468	7797.461	44674.03	130800.6
2009	6898.921	1610.248	8509.169	10659.52	74650.03
2010	7251.687	2085.362	9337.049	9192.943	57223.29

Unit: US\$ Million

Source: Japan's Outward and Inward Foreign Direct Investment, Japanese Trade and Investment Statistics (JETRO, 2011)

Table 5. Developments by Industry of Japanese Factories and Stores' Investment in China, 1989-2004

Year	Total Industry Statistics	Manufacturing Industry				Non-Manufacturing Industry				Branch Offices
		Electric Machinery	Transportation Machinery	Machinery	Other	Service Industry	Commercial Industry	Real Estate	Other	
1989	586.8	106.8	1.6	57.3	110.0	235.2	11.6	11.2	51.9	1.2
1990	511.0	32.8	2.0	74.3	127.8	198.6	4.5	14.1	52.9	4.0
1991	786.9	167.2	11.8	39.4	201.6	255.1	9.2	21.7	25.3	55.6
1992	1381.2	246.1	41.4	65.3	485.2	283.2	30.6	84.8	68.6	76.0
1993	1953.8	385.5	97.6	264.8	838.6	143.3	64.0	47.4	60.0	52.6
1994	2683.1	515.9	233.3	137.4	1055.6	215.4	156.1	145.9	114.6	108.9
1995	4319.4	904.4	370.1	463.1	1630.1	173.2	249.2	260.7	167.8	100.8
1996	2827.5	444.5	280.4	318.8	988.2	286.6	145.9	194.8	121.8	46.5
1997	2438.1	517.7	122.3	231.5	985.6	178.8	124.3	131.4	114.3	32.2
1998	1377.5	163.1	178.7	114.1	582.0	96.7	44.1	45.2	131.1	22.5
1999	858.7	81.9	103.7	43.6	394.9	102.1	71.7	3.4	21.6	35.8
2000	1114.5	357.9	101.4	94.5	301.9	167.1	61.9	14.6	12.6	2.6
2001	1818.5	650.3	257.9	162.5	535.5	40.8	115.9	11.2	41.4	3.0
2002	2152.5	380.8	236.3	190.8	903.9	39.0	83.0	4.6	168.1	146.0
2003	3552.6	496.5	958.1	399.3	919.1	81.6	248.6	15.1	360.5	73.8
2004	4908.8	506.5	1795.0	460.6	1304.2	146.6	272.6	15.6	200.0	207.6

Unit: ¥100 Million

Notes: Does not include Japanese investment in Macau and Hong Kong

Source: Japan Ministry of Finance (Liu, 2010: 149)

Table 6. Operation Conditions of Japanese Businesses Subsidiaries in China, 1999-2008

Year	Number of Japanese Factories and Stores	Turnover (¥100 Million)	Facilities Investment (¥100 Million)	Full-time Employees (Ten-thousand people)	Ratio of Local Purchases (%)
1999	1573	31041	1107	47.9	45.0
2000	1712	36157	1825	54.8	53.7
2001	1557	41385	1830	53.1	50.8
2002	1870	51421	2450	69.7	52.9
2003	2214	68840	2957	91.4	50.2
2004	2704	89720	4820	101.0	49.0
2005	3139	123811	6103	120.7	52.0
2006	3520	164478	7563	129.0	53.0
2007	3781	217971	7860	142.8	59.8
2008	4213	229934	6935	134.5	54.7

Note: Figures do not include investment in Macau and Hong Kong

Source: Basic Survey of Overseas Business Activities, Japan Ministry of Economy, Trade, and Industry (Liu, 2010: 150)

Japan's economic portfolio, and were a key reason why Japan since 2003 enjoyed its longest continuous period of recovery in history after World War II until the October 2007 financial crisis (Lincoln, 2011: 357). During these five years, Japanese exports to China of electric equipment such as semiconductors and high-end digital cameras for advanced computers and digital home appliances significantly increased, expanding domestic production by the Japanese firms that manufactured these items (Fukuda, 2010: 261-263). China's leading status among Japan's trading partners continued during the LDP administrations of Fukuda Yasuo and Aso Taro, despite the fallout from the financial crisis that caused Japan's exports to China to exhibit negative growth for twelve straight months between 2008 and 2009 (Chen, 2010: 1).

On the investment side, in 2007, twelve percent of Japan's total investment occurred in China, while Chinese investment in Japan made up only one percent of the FDI in Japan, evidencing that China was still a negligible force in investing in Japan (Pekkanen, 2010: 200-201). Most Japanese investment in China took place in the manufacturing sector and was directed at coastal provinces, while Japanese outlays in the service sector were more evenly divided between China and India (Alvstam et al, 2009: 204; Lin, 2008: 5). To aid with Japanese businesses' investment in China, the Japan External Trade Organization (JETRO) established six branch offices in the country by 2009, as many offices as it had previously stationed in North America, and one more if JETRO's Hong Kong branch office is counted as a part of its China operations (Lin, 2010: 2). In 2009, the year that Democratic Party of Japan (DPJ) party leader Hatoyama Yukio became prime minister, the overall amount of Japanese exports and imports with China fell from the previous year due to the lingering effects of the financial crisis. However, that same year, the share of Japan's exports and imports with China increased within Japan's worldwide trade portfolio.

Paradoxically, despite the significant progress in Japan's economic interaction with China since the Koizumi administration, Tokyo's political interaction with Beijing was marked largely by tension. During the Koizumi administration, a major cause of the difficulty was Koizumi's personal visits to the Yasukuni shrine, which he promised to conduct annually as prime minister during his campaign for the LDP presidency in mid-April 2001. After winning the LDP presidency and assuming the position of prime minister, Koizumi first visited the shrine in August 2001, prompting praise from conservative Japanese while eliciting criticism from China, where both government officials and common citizens felt that Koizumi's visit exhibited a lack of remorse for Japan's wartime wrongdoings. However, because Koizumi was able to travel to China in early October 2001 and professed "feelings of heartfelt apology and mourning for the people of China who were sacrificed due to [Japan's] aggression," and Chinese President Jiang Zemin responded by saying that China-Japan ties had improved, the bilateral relationship was not deeply impacted by this first Yasukuni visit, presumably due to prior coordination by both countries' foreign ministries in ensuring that rectification would follow (Kokubun, 2010: 52).

Japan's political interaction with China generally carried on smoothly over the next few months, until Koizumi made a second and unannounced visit to the shrine on April 21, 2002. Because there was no prior notification about Koizumi's visit from the Japanese government, the Chinese government vehemently condemned Koizumi's behavior and postponed the visit to China by Japanese Defense Agency chief Nakatani Gen and the first visit of Chinese naval vessels to Japan scheduled for May 14, 2002 (Sasajima, 2002: 81-82). Progress in high-level relations stalled after this second shrine visit, and the bilateral troubles were compounded by the Shenyang diplomatic incident in May 2002 that led the Ministry of Foreign Affairs (MOFA) to

lose influence in determining Tokyo's China policy. Following the rise of the fourth generation of Chinese leaders in October 2002, influential Chinese intellectuals appeared to test the waters of reconciliation between China and Japan, allegedly at the behest of incoming Chinese President Hu Jintao (Gries, 2005: 843). Most notably, a yearend article by *People's Daily* journalist Ma Licheng entitled "New Thinking on Japan" contended that there was disturbing animosity and irrationality in some Chinese people's views of Japan, that Japan had already apologized for its wartime actions in China so the issue was settled, and that China should recognize Japan as a democratic country ruled by law and not the military (Ma, 2002: 41-47). However, before there was time for Ma's argument to be considered by its intended Chinese audience, Koizumi suddenly made a third Yasukuni visit on January 3, 2003, reigniting smoldering anti-Japanese sentiments in the Chinese public and seemingly eliminating any potential for dispassionate debate about China-Japan relations.

Ensuing events in 2003 and 2004 worsened bilateral ties, especially at the popular level. Despite Hu and Koizumi's agreement to form the New China-Japan Friendship Committee for the Twenty-First Century in May 2003, anti-Japanese popular opinion in China continued to grow, manifesting on such occasions as the first-ever mainland Chinese-organized trip to the Senkaku (Diaoyu) islands, furious condemnation of the Qiqihar and Zhuhai incidents, and a large scale anti-Japanese protest in Xian in response to a drag skit performed by Japanese exchange students at Xibei University. In turn, the negativity toward Japan expressed in these incidents aroused wary sentiments toward China among many Japanese people,

In spring 2005, the Chinese public's anti-Japanese views grew even more intense, culminating in anti-Japanese protests on a historically-large scale. For many Chinese, the year began on a bad note when Tokyo and Washington's Two-Plus-Two meeting in February 2005

placed the Taiwan Strait under Japan-US joint defense, suggesting that Japan might intervene in a future cross-strait scenario and thus interfere in what China deemed a domestic matter (Yang, 2006: 134). The next month, UN Secretary-General Kofi Annan declared his support for adding Japan to the permanent members of the UN Security Council, which triggered a Chinese internet petition movement that opposed Japan's membership because of its alleged failure to acknowledge its wartime offenses. Additional anger that the Japanese Ministry of Education had approved a supposedly nationalist textbook which glossed over Japan's war record led to massive demonstrations in provincial cities such as Chengdu and Shenzhen in early April, and in Beijing and Shanghai during the second and third weeks of the month (Kokubun, 2010: 53). President Hu could not easily take a firm stance against the protestors, for fear of looking soft on Japan and providing his opponents with political capital. Thus, he waited to order police to start breaking up the protests until April 16, when the protestors had become more violent and there existed the danger of even greater protests and social instability on the May Day and May Fourth holidays (He, 2007: 22).

The creation on May 13 of the China-Japan Comprehensive Policy Dialogue for the discussion of bilateral, regional, and international relations essentially signified the end of China's spring 2005 protests, and demonstrated desire of the two countries' governments to maintain a working relationship. But it did little to soothe, nay eliminate, the mutual antipathy between the two countries' citizens. On the Japanese side, negative perceptions increased about China and its perceived moralizing about history, especially among the younger generations of Japanese (Roy, 2005: 205). For this reason, by the time Koizumi visited the Yasukuni shrine for the fifth time on September 17, 2005, the Japanese public seemed to rally behind its prime minister when the Chinese government issued its furious response (Mochizuki, 2009: 115).

Japanese citizens could probably foresee that China would react angrily to another Yasukuni trip by Koizumi. Yet a majority of them endorsed it anyway, while simultaneously recognizing that Japan was an aggressor in World War II (Tennichi, 2007: 55).

After Koizumi's resignation in September 2006, Prime Minister Abe Shinzo's ambiguity about visiting Yasukuni enabled him to conduct the first bilateral summit meeting with China's leaders in five years. In early October 2006, Abe flew to see Hu Jintao and other high-level Chinese government officials in Beijing, where he pledged that Japan would strive to forge a "mutually beneficial strategic bilateral relationship" with China. Yet despite Abe's declaration that Japan would work to foster more cooperation with China, he and his subordinates seemed unable to really overcome their suspicion of the country. A little more than one month after North Korea conducted its first nuclear weapon test on October 9, 2006, Minister of Foreign Affairs Aso Taro, a holdover from the Koizumi administration, unveiled the "Arc of Freedom and Prosperity" concept, which stemmed from Abe's belief that Japan should take a more active and morally-oriented foreign policy line based on the so-called "universal" values of freedom, democracy, human rights, rule of law and the market economy (Ministry of Foreign Affairs of Japan, 2006; Abe, 2006). Although Aso's announcement of this arc, which ran from northeast, southeast, and central Asia through the Caucasus, Central Europe, Eastern Europe, and Baltic states, was conceivably a warning to Pyongyang, it was also a clear effort by Japan "to differentiate its attempts at regional and global leadership from those of China," and thus suggested Tokyo's hesitation to cooperate with Beijing (Hughes, 2009: 853-854).

Abe's abrupt collapse after the July 2007 House of Councilors election forced the LDP to select a new leader with a better reputation for reliability and stability. Former Chief Cabinet Secretary Fukuda Yasuo immediately emerged as the obvious choice and took over as Japan's

next prime minister, but he failed to live up to his label as a politician dedicated to improving relations with China. During his yearlong tenure, Fukuda spent his political efforts largely on giving support and loyalty to the US-led coalition mission fighting the Taliban in Afghanistan, especially in trying to pass legislation that authorized Japan to send Maritime Self-Defense Force ships to the Indian Ocean to refuel coalition planes. With regard to China policy, although Fukuda signed a joint statement with Hu Jintao that declared “advancing all-round strategic and mutually beneficial relations” to be the formal goal for bilateral relations (Jin, 2008: 26), he seemed quite cautious about the prospects for the two countries’ cooperation (Kamimura, 2008: 58), while during his tenure the House of Representatives’ Foreign Affairs Committee displayed increasing insecurity about China, with frequent warnings about China’s perceived military buildup and laments about China’s lack of democracy (Hagström & Jerdén, 2010: 724-728). Former Minister of Foreign Affairs Aso Taro eventually replaced Fukuda as prime minister in September 2008, but in his short term as Japan’s executive prior to the 2009 House of Representatives election, Aso refrained from announcing any substantial foreign policy shifts, instead concentrating on maintaining and building voter support for the LDP. In his two meetings with President Hu, Aso spoke generally about the possibility of cooperation on the problems caused by the global financial crisis and recited Japan’s desire to pursue a “mutually beneficial strategic relationship” with China (Associated Press, 2008), but his administration did not take concrete measures toward these ends.

The watershed DPJ victory in the 2009 House of Representatives election suggested that Japan might finally be ready for rapprochement with China. New Prime Minister Hatoyama Yukio made his first foreign head-of-government meeting with Hu Jintao in September 2009 on the sidelines of the UN General Assembly, and his administration promoted a regional concept

called the East Asian Community (EAC) that foregrounded Japan's relationships with China and other East Asian countries vaguely at the expense of close Japanese ties with the US. In early December, DPJ Secretary-General Ozawa Ichiro led 140 DPJ legislators and their 460-plus attendants on a four-day trip of China through Beijing and Shanghai, to conduct dialogue with Chinese officials through the interparty Chinese Communist Party-DPJ Exchange and Discussion Mechanism, and days later Chinese Vice President and heir to the presidency Xi Jinping was hosted by the Japanese Emperor after the DPJ controversially demanded that the Imperial Household Agency bend its 30-day prior notification rule and allow the imperial meeting to take place with seventeen days' advance notice.

Aside from these symbolic visits and the lofty yet opaque EAC concept, however, there was little in the way of actual development in Japan's China policy under Hatoyama. Before Hatoyama had the opportunity to substantively improve Tokyo's relationship with Beijing, his delay in settling the Futenma marine base relocation issue led to pressures both inside and outside Japan that ultimately forced his downfall. Finance Minister Kan Naoto won the DPJ presidential election in early June 2010 and succeeded Hatoyama as prime minister on June 8. Thereafter, two competing views represented by Kan and Ozawa vied to determine the DPJ government's foreign policy outlook. Whereas Ozawa believed that Japan should increase comprehensive engagement of China, Kan argued that China-Japan relations could not suddenly have primacy over Japan-US relations, and that China and Japan should first resolve their dispute about undersea resources in the East China Sea before upgrading their relationship (Tsai, 2010: 104-105). Before the DPJ could reach an internal consensus about its China policy, on September 7, 2010, a Chinese fishing trawler collided and two Japanese coast guard patrol boats collided near the Senkaku (Diaoyu) islands, causing a major diplomatic imbroglio that lasted

weeks and bringing China-Japan relations to an all-time postwar low. In the wake of this incident, several meetings between Kan and Hu Jintao produced few results except firm statements by both leaders that the islands belonged to their respective countries and generic comments about improving the bilateral relationship. The next time that Kan spoke with a Chinese leader was after the Great East Japan earthquake in March 2011, when Wen expressed “deep sympathy and solicitude” on China’s behalf and offered to send a Chinese search-and-rescue team to the affected areas (Bergman, 2011). Sadly, it took a horrific disaster for the two countries to resume high-level communication.

III. Causal Linkages between Economic Dependence and Reduced Political Conflict

The divergence between the positive nature of commercial exchange and the strained nature of Japan’s political interaction with China begs the question of why economics dependence did not contribute to more harmonious policy by Tokyo toward Beijing. To comprehend the logic of this puzzle, it is necessary to turn to theories of the relationship between economic dependence and reduced political conflict, which clarify the causal linkages across which economics can moderate politics, and then analyze Japan’s behavior toward China in light of their principles.

In regard to this first task, Scott Kastner’s work on cross-strait economic interdependence and political conflict outlines three hypothetical causal linkages that can be used to explore the relationship between economic interaction and the lessening of political tension. Kastner terms the theories that explain these three linkages the constraint argument, information argument, and the transformation argument (Kastner, 2009: 108-112). The constraint argument is based on the traditional liberal view that open economic exchange drives private businesses to depend on foreign markets. Because these businesses have incentives to oppose foreign policies that are

commercially injurious, they prefer that their government takes stable policy lines which avoid interstate disputes, and they will act to correct their leaders' policies when they threaten to harm the businesses' economic interest.

Compared to the constraint argument, the information argument is a relatively new thread in the debate on the relationship between economic dependence and political conflict. Rooted in a rationalist explanation for war and further developed by political economists, the information argument holds that a country ordinarily prefers not to reveal private information about its relative capabilities and resolve to fight wars, since such information would give other countries a true picture of the country's commitment to its goals. Also, because countries do not have each other's private information, they are inclined to overstate their capabilities and resolve in order to deceive other countries and obtain better outcomes in interstate disputes. Therefore, for a country to effectively demonstrate resolve in an environment where all countries are often bluffing, it is effective for the country to send "costly" signals that imply the country's willingness to pay a price to obtain its objectives (Fearon, 1995). Using this idea, political economists have argued that in a situation in which a country is highly integrated in the global economy, economic sanctions can be one form of costly signaling, since they can hurt the opposing country but also cause the enforcing country to lose foreign investment. Sanctions are thus a believable signal of resolve, and provide economically integrated countries with an alternative, peaceful way to show their commitment to national objectives (Gartzke & Li, 2003).

A third causal linkage between economic dependence and reduced political tension is the transformative argument, which is based on the notion that cross-border commercial exchange can foster the emergence of internationalizing coalitions of political parties, government bureaucracies, and interest groups who support commercially-oriented policies over political

policies that may cause conflict and damage the country's economic interests (Solingen, 2003). Additionally, the transformation argument holds that interpersonal exchange at the society-level may lead citizens of different countries to believe in common goals whose importance transcends that of previous local goals that may have caused political tension between the countries.

IV. Analyzing the Linkages in Japan's Interaction with China

The Constraint Argument in Japan's Interaction with China

The constraint argument is grounded in the reasoning that economic dependence engenders unwillingness among the dependent country's business class to support political policies that might offend the country on which it depends, if not actively call for friendlier policies toward that country. In the case of Japan's economic dependence on China, the constraint argument would expect that Japanese businessmen with commercial dealings involving China would be concerned about behavior by Tokyo that could possibly prompt Beijing's resentment. Their concern would be transmitted to Japanese politicians, who would seek to retract controversial policies and reorient Japan's political direction to a course more favorable to China. Since China's importance to Japan's economy grew consistently since Koizumi became prime minister, the constraint argument would anticipate that the restraining effects on Japan's policy choices would become increasingly apparent throughout the decade after 2001.

In fact, available evidence suggests that Japanese businesses' increasing involvement with China did not substantially constrain Japanese policymaking during this period. In February 2001, two months before Koizumi came into office, the Japan Business Federation (*Keidanren* in Japanese), Japan's most influential business interest group, issued a report with recommendations for improving China-Japan relations in the new century. The publishing of this

report portended that Japanese businesses could be concerned about the continuation of objectionable practices by Tokyo toward Beijing in the future, and that they could desire policy alternatives that avoided controversy. The Keidanren report specifically called on the Japanese government to deepen mutual trust by refraining from offensive remarks about history that could offend China, increasing dialogue about history textbooks and engaging in joint research projects, treating Taiwan as a Chinese internal affair, and enhancing people-to-people contacts (Keidanren, 2001). Yet, two months later, in the April 2001 LDP presidential election, Koizumi promised that he would conduct annual Yasukuni Shrine visits if elected, and indeed carried out his pledge after becoming prime minister, aggravating Tokyo's relations with Beijing and indicating the ineffectiveness of the Keidanren's February 2001 report in moderating Japan's political policy toward China.

In subsequent reports related to China, the Keidanren not only abstained from criticizing the Japanese government, but even encouraged its potentially provocative moves. In a March 2003 statement on China-Japan relations, the Keidanren simply noted that communication channels in both private companies and government offices should be examined and restructured specifically to promote better business ties between the two countries, saying nothing about Tokyo's need to take a proactive stance on stemming the overall decline in the bilateral relationship (Keidanren, 2003). Then, in a January 2005 statement, it advocated constitutional reform and the amendment of Article Nine to include the right of collective self-defense (Keidanren, 2005). The right to collective self-defense in particular was a displeasing policy toward China, since it implied that Japan could protect US armed forces engaging in a Taiwan Strait scenario, for example by activating its ballistic missile defense system to shield US military installations on Japanese territory from Chinese missile attacks.

After the anti-Japanese protests in China in spring 2005, the Chinese government tried to persuade Koizumi to abstain from his annual Yasukuni Shrine visit that year. Believing that Keidanren's voice had the ear of the Koizumi administration, Chinese Ambassador to Japan Wang Yi invited Keidanren President Okuda Hiroshi and the entire staff of Keidanren's China committee to visit Beijing on August 16 to discuss improving bilateral relations with Chinese President Hu Jintao. However, because dialogue on that day would be impossible if Koizumi visited the shrine on August 15, the anniversary of Japan's surrender in World War II and a date with great symbolic importance for attendance at Yasukuni, Okuda declined Wang's offer and thus avoided influencing Koizumi's decision to potentially visit the shrine on that day. Instead, Okuda accepted a rescheduling of the talks for September 30. On that day in Beijing, Okuda was joined by Nippon Steel Corporation President and Chairman of Keidanren's China committee Mimura Akio, Matsushita Electric Industrial Co. Chairman Morishita Yoichi, Sumitomo Corporation Chairman and vice chairman of Keidanren's international relations committee Miyahara Kenji, and Keidanren Director General Wada Ryuko, who together were asked by President Hu to convince Koizumi to desist from visiting the shrine. Hu specifically referred to the Yasukuni visits as "blocking economic relations," and attempted use potential economic costs to coerce his Japanese listeners to convince Koizumi to stop:

China needs Japan's economic cooperation...and would like to develop amicable relations into the future. China would like to introduce Japanese technology for its planned bullet-train railway line, and also work with Japan on energy conservation and environmental technologies, to foster more balanced economic growth. However, the prime minister's visits to Yasukuni Shrine have become an obstacle [to these aims]. (J-CAST Business News, 2005)

Five days after receiving Hu's remonstrations in Beijing, Okuda relayed the message to Koizumi that the Chinese leader was "furious" about Koizumi's Yasukuni visits. Nonetheless,

two weeks later, on October 17, Koizumi trekked to the shrine. On this visit, Koizumi dressed in an ordinary business suit, instead of the formal clothes he had worn on prior visits, and his only actions were placing coins in the collection box and offering a short private prayer. The relatively toned-down nature of this visit, compared to earlier visits where Koizumi decked himself in ceremonial garb and boldly signed the shrine's guestbook "Prime Minister Koizumi Junichiro," intimated that Okuda may have effectively pressed home Hu's warning (Ishii, 2006). Still, given that Koizumi visited the shrine, these alleged concessions were minimal, and were not continued in 2006 when Koizumi made his next and last Yasukuni pilgrimage with the most sensitive timing possible, August 15. Furthermore, in an interview in spring 2006 that was carried in the August 2006 edition of the popular Japanese news magazine *Chuo Koron*, new Keidaren President Mitarai Fujio denied that his organization had any opinion or influence on the prime minister's decision to visit the shrine, and dismissed the notion that Japan's economic relationship with China could suffer from political problems between the two countries:

The issue of Yasukuni Shrine visits is totally a political issue, not an issue that Keidanren is involved in. Mourning for people who lost their lives for the country is a natural thing for citizens to do. So it is most desirable for Japanese citizens themselves to decide how to do this. Collecting the opinions of citizens and making such a decision is truly the work of politics. It is said that "cold politics, hot economics" might be moving to "cold politics, cool economics." In reality, Japan-China trade figures have continued to increase, and there has been no influence on economic activity. If economic groups and private corporations announce their thoughts about political issues between Japan and China, it would only strain the debate. I am a Japanese citizen before I am a businessman, and believe that the Yasukuni issue should be decided on a citizen basis. As head of the Keidanren, I do not think there are any comments to be made. (Mitarai, 2006: 103)

In sum, the Keidanren, the chief interest group representing Japanese businesses, neither criticized Koizumi's policies toward China, nor exerted any significant influence to moderate them. On the other hand, the Japan Association of Corporate Executives (*Doyukai* in Japanese),

another important though slightly less powerful business interest group, did come out in favor of accommodative policies toward China, though its prescriptions were either broad and unspecific, or pointed but ineffective. In a report issued in April 2003, one year after Koizumi called China an “opportunity” for Japan’s economy, the Doyukai advocated that Japan recognize that it was “in the same boat” as China as a participant in the country’s development. Although the report admitted that China’s radical transition from a socialist system to a market economy was fraught with distortions, strains, and difficulty, and as a result caused some people to worry, it asserted that China understood its own need for cooperation with other countries, as exemplified by its entrance into the ASEAN-China FTA in November 2001, and would seek to build healthy relations with its neighbors. Since there were high expectations for China’s rapid development to continue contributing to the East Asian regional economy, the report said that Japan should encourage this process by deepening dialogue with China. However, similar to the March 2003 Keidanren report, this Doyukai report did not identify concrete discussion topics, nor did it exactly mention the Japanese government as a party that should take initiative in carrying out this dialogue (Doyukai, 2003: 2).

Three years later, the Doyukai clearly fingered Tokyo over the issue of Koizumi’s Yasukuni visits. In a proposal written in April 2006 explicitly directed at the governments of China and Japan, the Doyukai argued that because the shrine visits were damaging the resumption of bilateral exchanges at the summit level and thus affecting Japan’s position in international society, the Japanese government should act independently and affirmatively to resolve the problem by stopping the visits. Additionally, the Doyukai recognized that Koizumi’s visits to the shrine were to mourn Japanese people who left behind their families and gave their lives for the country, and that they were made with the intention that such a miserable war should

never happen again. Nevertheless, the Doyukai concluded that the visits were inappropriate because they were not backed by a solid consensus among Japanese citizens (Doyukai, 2006: 4-5). Although support within the Doyukai for this proposal was divided, the proposal was ultimately announced to the Japanese government, which was an unusual outcome for an organization whose public statements were typically endorsed unanimously (Aoyama & Kokubun, 2007: 69).

Upon issuance on May 9, 2006, the Doyukai proposal was well-received by former LDP Vice President Yamazaki Taku and Komei Party House of Representatives member Kanzaki Takenori. But Koizumi immediately dismissed it, and Chief Cabinet Secretary Abe Shinzo closed ranks with his boss, bluntly stating, “The prime minister’s word is final.” Young LDP conservatives were incensed by the proposal, excoriating the Doyukai for “only pursuing financial profit and having lost respect for the spiritual culture that the state’s independence is built upon.” In the face of this strong reaction, Doyukai Secretary Kitashiro Kakutaro did a roundabout and apologized to Koizumi for the commotion that the proposal ignited at a dinner event on May 17 attended by Koizumi and representatives of Japan’s business world. This episode effectively concluded any influence that the Doyukai proposal might have had on altering Koizumi’s shrine visit policy, though the debate about the proposal did not end at the dinner event, and reportedly continued within the Doyukai and Japanese financial circles for several weeks (Ibid: 69-70).

Aside from the marginal sway of Keidanren on Koizumi’s 2005 Yasukuni visit and the fruitless overture by the Doyukai in 2006, there is little evidence of economic considerations attempting to moderate the behavior of Japan’s political leaders, either during or after Koizumi’s term. Moreover, the few other attempts at limitation appeared only in the Koizumi years, not in

later years when Japan exhibited a comparatively higher degree of economic dependence toward China, and were aimed only at Koizumi's Yasukuni visits, not at other aspects of Japanese policy that related to China. Still more, these other attempts were of an individual nature and uncoordinated with likeminded people or interest groups, were uniformly unsuccessful, and often met with strong domestic resistance, sometimes of a nationalistic character. For example, when Fuji Xerox Chairman Kobayashi Yotaro declared in September 2004 that Koizumi's Yasukuni visits were hurting Japan's business in China, he was pilloried by right-wing groups and sent an intimidating letter containing live bullets. Days after Koizumi's final trip to the shrine in August 2006, Japan-China Friendship Association President and LDP House of Representatives member Kato Koichi had his house burned down by a nationalist extremist who disagreed with Kato's criticism of Koizumi's shrine visit (Hagström, 2009: 237).

At first glance, since there were so few instances of economic interests seeking to constrain Japanese political activity, and none with substantial efficacy, it would seem that Japanese businesses were essentially unworried about their government's behavior being harmful to their bottom lines, which would be a necessary precondition for them to complain to Tokyo. In fact, such a view was evident in the widespread belief among Japanese businesses that, "China very much needs Japan, be it to protect its foreign image as a peacefully developing country, to maintain its export- and FDI-dependent economy, to cope with its environmental problems, or to reduce its energy consumption, and that China will always seek a compromise" (Drifte, 2009: 56). The typical attitude in the Japanese business community toward problems in bilateral relations was that politics and diplomacy were faring poorly, but that commerce was a bright spot that could eventually improve the relationship in the long run, though not by shifting Tokyo's political policy toward Beijing. Rather, Japanese businesses already had so much

invested in their economic ties with China that they could not turn back, and would continue their work with the country, regardless of antagonistic moves by their government's leaders. In the words of Hori Toshio, general manager of the Tokyo-Mitsubishi Bank branch in Shanghai, "the relationship is too big for withdrawal already" (French & Onishi, 2005).

The Japanese notion that economic and political developments ran on different tracks was not limited to businessmen, for that matter, but extended to Japan's political elites. Japanese Prime Minister Abe Shinzo openly stated that maintaining a separation between economics and politics (*seikei bunri* in Japanese) was beneficial for China-Japan relations, as political issues like the Yasukuni visits and history disputes would diminish in importance to the relationship as the significance of the two countries' economic ties increased (Abe, 2006: 152-153; Hughes, 2008: 38; Liu, 2007: 17). In short, for Japanese political leaders, how to resolve political tensions with China was not at question. Instead, the tensions could remain, but they should be made to look small compared to the magnitude of bilateral commerce.

Additionally, impetus for Japanese businesses to rein in the Japanese government was affected by the lack of actual cases in which Chinese feelings about Japan had a real negative impact on the businesses' activities in China (Davis & Meunier, 2011: 628-646). Although during the April 2005 anti-Japanese demonstrations there were instances of Chinese stores being asked by foreign and domestic companies to remove Japanese products from their shelves, and Japanese businesses in China sometimes experienced difficulties with their employees and potential customers because the businesses were Japanese, these occurrences were neither frequent nor problematic enough to warrant petitioning the Japanese government. As one Japanese think tank policy paper summed up, "the most effective preparatory measure for avoiding potential risks is that individual Japanese companies generously exercise the expertise

and skills they can be proud of in China and earn respect in China,” not lobbying Tokyo to change its ways (Konomoto, 2005: 7). Japanese businesses’ disinclination to protest their government’s policies further indicated that economic dependence did not operate through the constraint argument to significantly influence Japan’s political relationship with China.

The Information Argument in Japan’s Interaction with China

The rationale of the information argument is that global economic integration increases the costliness of threats, and therefore makes them more credible, by their potential to frighten away foreign investors and businesses. In addition, the dependence resulting from global economic integration enables countries to inflict costly economic sanctions, giving their government leaders a different option than war by which to signal determination to foreign countries. In the case of Japan’s relationship with China, the information argument would anticipate that Japan’s increasing economic reliance on China would make Chinese sanctions toward Japan costly to Beijing because of their likelihood to scare off both Japanese and other foreign investors and businesses. At the same time, precisely because of this costliness to China, the Japanese government would view the threats as serious, and Tokyo would more likely be swayed to discontinue its offending policies toward Beijing.

Evidence of the information argument emerged only twice during the decade since Koizumi gained power, though one of the cases can be disputed, suggesting that the argument’s logic did not function significantly during the period. The first and only clear-cut occurrence of the information argument happened near the start of Koizumi’s term. On April 23, 2001, three days before Koizumi succeeded Prime Minister Mori Yoshiro, the Mori administration exercised provisional safeguard measures for a 200-day term on imports of leeks, shiitake mushrooms, and reed mats for tatami flooring. Since these commodities were mostly imported from China,

Beijing grew upset at the Japanese government and, two months after failed negotiations aimed at lifting the measures, punitively slapped Japanese automobiles, cellular and car phones, and air conditioners with a 100 percent tariff on June 21. Although the total amount of the Chinese sanctions was expected to account for less than one percent of annual China-Japan bilateral trade, it still worked out to a penalty of around \$800 million annually and cost as much as eight times the amount of the Japanese restrictive tariffs on the Chinese agricultural products. More problematic from the Japanese perspective was that the Chinese tariffs targeted the automobile sector, where Japanese firms predicted tremendous growth in the Chinese market, especially after China's 2002 ascension to the WTO, and where Japanese firms also worried about competition from American and European counterparts. Thus, Japanese automobile companies were deeply concerned about the possibility of long-term Chinese tariffs against Japanese imports (Hong Kong Trade Development Council, 2001).

In response to Beijing's sanctions, Koizumi said, "it is appropriate to listen to China's arguments carefully and hold talks to improve the situation in a calm and constructive manner." From July 3, China's Ministry of Foreign Trade and Economic Cooperation and Japan's Ministry of Finance (MOF), Ministry of Economy, Trade and Industry (METI), and Ministry of Agriculture, Forestry, and Fisheries (MAFF) met in Beijing to resolve the dispute. When their discussions had born no fruit by that October, Chinese President Jiang Zemin, Chinese Premier Zhu Rongji, and Koizumi all urged more consultations. Finally, after the 200-day term of the safeguard measures expired on November 8, the Japanese government delayed its decision to make the measures permanent. On December 21, the two sides met again in Beijing and achieved consensus on settling the dispute. China promised to end its special tariffs on the three Japanese products, and Japan promised to not to make the safeguard measures permanent.

Furthermore, both sides agreed to establish an information scheme about the three agricultural products called the China-Japan Agricultural Products Trade Council. Soon thereafter, Japan started reimbursing the emergency duty that it charged importers during the 200 days of the provisional safeguard measure, while China removed its tariffs on the three Japanese products on December 27 (Nakagawa, 2002: 1023-1024).

A second episode evidencing the information argument took place in the aftermath of the September 2010 boat collision incident near the Senkaku (Diaoyu) islands. On September 21, while Japan still refused to release the captain of the Chinese ship and one day after Chinese authorities detained four Japanese employees of the Fujita Corporation for allegedly intruding into a military-restricted area in Hebei province, Chinese customs officials reportedly stopped shipments of rare earth minerals to Japan. Three days later, after establishing a precedent for subjecting foreign entrants into the Senkaku islands to local law (to underline Japan's sovereignty claim) and securing Washington's affirmation that the islands would be protected by the Japan-US security treaty, the Japanese government freed the captain. Yet China's halt on rare earth exports continued, leading METI chief Kaieda Banri to call China's actions a "de facto ban" and declare that they "could have a very big impact on Japan's economy" (Tabuchi, 2010). Japan was China's largest purchaser of the minerals, which have a wide variety of applications in high tech machinery, especially in clean energy and military technologies. Therefore, the drop in rare earth shipments, which reportedly lasted until the end of November 2010 and then resumed at less than previous amounts, was keenly felt in Japan's high tech industry.

However, the actual circumstances around this rare earth "ban" were disputed. The Chinese government denied that it blocked the shipments as a tactic during the dispute, and said that individual Chinese mining companies acted on their own in slowing down exports in

accordance with a general downward trend in rare earth export quotas. It claimed that the quotas had been designed years before the boat collision incident, with an eye to stemming the overproduction of the minerals that had resulted from decentralization and weak industry regulation and caused a domestic environmental crisis (Webster, 2011). Moreover, though the alleged embargo exposed Japan's vulnerability to disruptions in its rare earth imports, the true consequence of China's lowered exports was unknown, since Japan purportedly possessed major stockpiles of rare earths that it had amassed in the decade before the incident. Xu Guangxian, a leading scientist of China's rare earths, stated that, prior to September 2010, Japanese industry had already accumulated rare earth supplies that could last it another twenty years (Lee, 2010).

Due to the controversy surrounding China's rare earth policy and its alleged "ban" on exports in the wake of the 2010 boat collision incident, this second instance of the information argument is more dubious than the first, and indicates the tenuousness of the evidence supporting the argument in the years after the 2001 tariff disagreement. More importantly for discussion of the information argument, whether the slowdown in China's rare earth shipments to Japan was actually a response to Tokyo's actions after the incident, the Japanese government's reaction suggested that Japan would seek to alleviate its rare earth dependency on China, not switch to more accommodative policies to gain greater supplies of the minerals from China. After the decrease in Chinese exports, the Japanese government quickly made a concerted push to locate alternative suppliers in other countries, encourage recycling of the elements in Japan, and promote the development of technologies not using rare earths. While Japan was likely remain reliant on China for rare earths in the short term, it started positioning itself for greater autonomy in the long term, thus suggesting a decreasing likelihood for this sort of resource dependence to have a political impact on Japan's China policy in the future.

The Transformation Argument in Japan's Interaction with China

The transformation argument is based on the notion that economic dependence can bring countries' foreign policy goals closer together in the cause of shared interests. It holds that this closer alignment may occur through internationalizing coalitions of different political actors, including political parties, bureaucracies, and interest groups, who collectively work to modify their country's policy to put greater emphasis on trade and stability, and less emphasis on national issues that are sources of bilateral tension. It may also transpire through people-to-people exchanges between two countries. In the case of Japan's economic dependence on China, the transformation argument would suppose that both China's increasingly important place in Japan's economic portfolio and the increasing human exchanges between China and Japan would generate adjustment at various levels of Japanese society, to the effect of harmonizing Japan's political policy toward China.

In spite of Japan's increasing economic dependence on China, however, evidence of the transformation argument was largely absent after Koizumi came to power in April 2001. Instead, among various actors in Japanese society, there was persistent resistance to the idea of closing Tokyo's political gap with Beijing. Among Japan's political parties, the two main parties, the LDP and DPJ, both exhibited inability to mend Japanese policy to match China's positions, if not indifference or indisposition toward Beijing. In the case of the LDP, the party that led the Japanese government for most of the decade, there was never any move to have deep strategic discussions between Beijing and Tokyo, despite the formal creation of the comprehensive policy dialogue and LDP prime ministers' repeated references to the China-Japan relationship as a "mutually beneficial relationship based on common strategic interests" (Gao, 2008: 38). In theory, with both recent institutional reforms to give the prime minister clearer powers to

determine the Diet and bureaucratic agendas, and control of both houses in the Diet through the middle of 2007, the LDP was well-situated to harmonize Japan's China policy as the former's economy grew increasingly tied to the latter's market. In practice, however, its capacity to engage China was hampered by a number of factors.

For one, within the LDP, the politicians who served important roles in the normalization of diplomatic relations with China in the 1970s and in the resolution of later bilateral problems, such as Ito Masayoshi, Takeshita Noboru, Gotoda Masaharu, Nonaka Hiromu, and Kato Koichi, had either passed away or lost influence by the beginning of Koizumi's term, weakening Japan's ability at Track II and private forums to manage security issues with China (Drifte, 2003: 120-121; Murata, 2006: 45-46). Koizumi's assertive push for Japan Post reform in the 2005 House of Representatives election also made enemies out of the old guard LDP members who stood against neoliberalism, coincidentally including many of the party's doves on China (Tamamoto, 2006: 59).

Additionally, with the 1994 electoral system reform that instituted single-seat constituencies to replace multi-seat districts, it became important for the LDP and other political parties to run attractive, reform-oriented candidates. As a consequence, younger politicians gained an advantage in receiving party endorsement and entering the Diet (Arase, 2007: 569). But while this reform led to a new wave of politicians who were more youthful, it simultaneously introduced policymakers who held stronger impressions of the recent frictions in China-Japan relations since the mid-1990s, and shallower senses of guilt and apology about Japan's wartime behavior. Though these younger politicians generally saw China as the second most significant country for Japan after the US, and made more visits there than to any country except the US, they did not have the same positive perceptions of Beijing as the older Diet

politicians who had worked through the normalization process, and instead based their views on what they conceived was Japan's national interest. In the words of Wu Jinan, a Chinese Japan specialist, younger Japanese politicians' attitudes toward China during the Koizumi administration could be characterized as filled "more with a sense of alertness than trust, competitiveness than cooperativeness" (Wu, 2002: 389-396). Given this attitude, it became possible for historical issues, particularly Koizumi's Yasukuni shrine visits, became contentious and drawn out under their watch. Even after Koizumi's departure, younger politicians' reluctance toward China was perpetuated by their government's failure to make headway on important bilateral projects, such as on China's ongoing exploration of gas fields in the East China Sea that contravened the core agreement of the mutually beneficial strategic partnership (Hughes, 2009: 856).

On the other side of the partisan aisle, DPJ politicians were not fundamentally different than their LDP counterparts toward China. Though the DPJ, particularly under Ozawa Ichiro's leadership after April 2006, tried to present itself as the party of engagement with China to embarrass LDP Prime Ministers Koizumi and Fukuda over their inability and slowness to have dialogue with Chinese leaders (Ibid: 843), in reality the party was plagued by internal divisions, especially over security policy, that limited its capability to act out a clear strategy toward Beijing. The effects of the DPJ's ideological confusion were compounded by the results of the 2007 House of Councilors election and 2009 House of Representatives election, which left the party reliant on the support of the Social Democratic Party (SDP) and the Japanese Communist Party in the upper house, and on the support of the SDP and People's New Party in the lower house (Tanaka, 2008: 82-83; Sun, 2010: 51). The DPJ's incoherent security policy was most visible when Prime Minister Hatoyama initially attempted to uphold his Futenma base relocation

promise to please the DPJ's House of Representatives coalition partner, the SDP, only to eventually renege on his promise and subsequently watch the SDP leave the coalition. But it could also be sensed by the absence of any serious, sustained undertaking to improve Japan's ties with China.

The DPJ's incoherence toward China was partially due to the varying personal views of its own leaders. Before Ozawa became DPJ chief and began staging high-profile party visits to Beijing to gain attention domestically, his policy statements did not always favor China. For example, when he was the leader of the opposition party Japan Renewal Party in August 1993, he announced that he would welcome a trip to Japan by Taiwanese President Lee Teng-hui. In 1997, he argued strongly for Japan to provide US forces with logistical support if they were defending Taiwan from a Chinese invasion, and in 2002 he claimed that Japan could counter China by deploying nuclear weapons, saying, "If China gets too inflated, Japanese people will get hysterical...It would be so easy for us to produce nuclear warheads. We have plutonium at nuclear power plants in Japan, enough to make several thousand such warheads...I told that person [a Chinese] that if we get serious, we will never be beaten in terms of military power" (Lampton, 2008: 198). Beside Ozawa, other leading DPJ figures indicated policy positions that challenged China. Former DPJ President Maehara Seiji called China a "threat" in December 2005, while Kan Naoto, who became prime minister in June 2010, opined in May 2002 that Taiwan was already an international entity and should be specially permitted to join the UN (Chao & Ho, 2004: 89). Hatoyama Yukio held a more consistently positive outlook on China, but he was in office for too short a duration and beleaguered by too many domestic problems, notably the Futenma base relocation issue, to iron out the differences in his party's various attitudes toward Beijing.

Aside from political parties, there was also little evidence of the transformation argument occurring at the bureaucratic level, where Japan's key ministries generally hesitated to change the country's China policy. Inside MOFA, potential to shift to deeper engagement initially appeared strong under leadership by Tanaka Makiko, an influential pro-China politician, at the start of the Koizumi period. However, Tanaka's sudden departure in January 2002, followed by the discrediting of the ministry and its pro-China officials in the May 2002 Shenyang incident, deprived MOFA of power to persuade Koizumi to take a more accommodative approach toward China, especially on his Yasukuni shrine visits. Faced with criticism from politicians and the public, the ministry reacted by turning to firm positions and temporizing tactics that only served to mollify acute problems with China, not resolve them (Drifte, 2009: 68).

By summer 2005, Japan's regional policy was decisively inclined toward the inclusion of Australia, India, and New Zealand in the framework for a future East Asian regional body. Support for the membership of these countries on East Asia's periphery could be read as partly due to the decline of MOFA's pro-China officials, and the rise of other ministry officials who wanted to balance China's influence with the addition of other regional players. Moreover, support in METI for the East Asian Summit (EAS) regional framework was economic in nature—the desire for a bloc-wide FTA and for the creation of the Economic Research Institute for ASEAN and East Asia as a regional equivalent of the OECD—and clashed with China's preference for the alternative ASEAN Plus Three (APT) framework. On the other hand, MOF's anomalous leaning toward the APT framework was motivated by Japanese financial considerations, and though within that framework Japan successfully established the Chiang Mai Initiative Multilateralization Agreement with China in April 2010, the mechanism was purposely

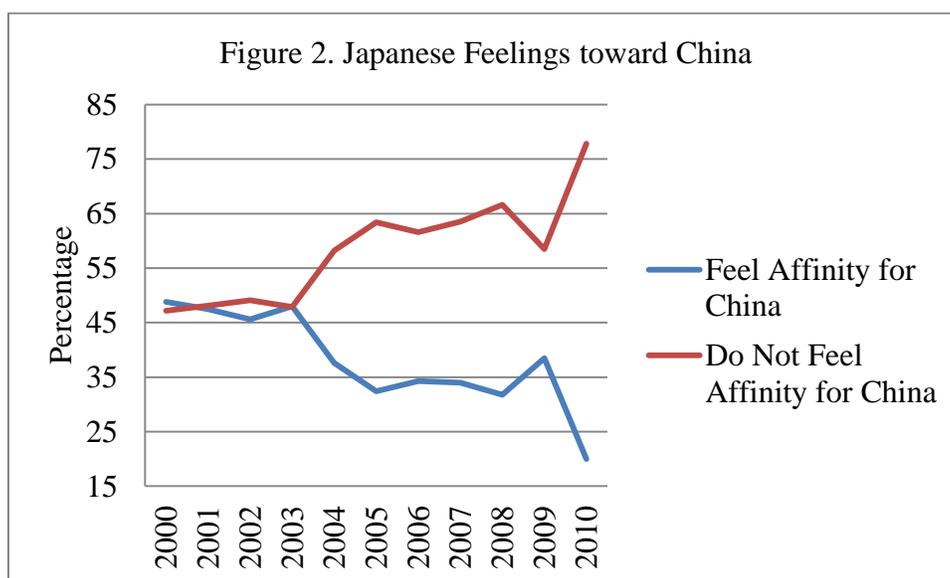
designed to be subject to IMF surveillance and conditionality, indicating the ministry's lack of confidence in working independently with Beijing to solve a regional financial crisis.

A fourth and less internationally-prominent ministry, MAFF, also functioned as an important bureaucratic force that impeded accommodative policies toward China after Koizumi became prime minister. Because the Japanese government practiced a four-ministry system in trade negotiations, MAFF's defense of farming interest groups opposed to the liberalization of Japan's agricultural market essentially checked any support within MOFA, METI, and MOF for a regional FTA that included China (Yoshimatsu, 2010: 404; Takahara, 2004: 170; Tsunekawa, 2005: 130; Dent, 2009: 168), particularly since these interest groups tended to be well-organized and make coherent, persuasive demands about preventing potential losses. Even the interest in a regional FTA by powerful business interest groups such as the Keidanren and their constituent member businesses, including many of Japan's most globally successful companies, was not enough to overcome the counterinfluence of Japan's farming lobby that resisted the initiative.³ As a result of MAFF's dissent, Tokyo was prevented from trying to institutionalize the EAS regional framework through a FTA, which could have laid down rules of conduct and heightened confidence between China and Japan (Ravenhill, 2009: 194).

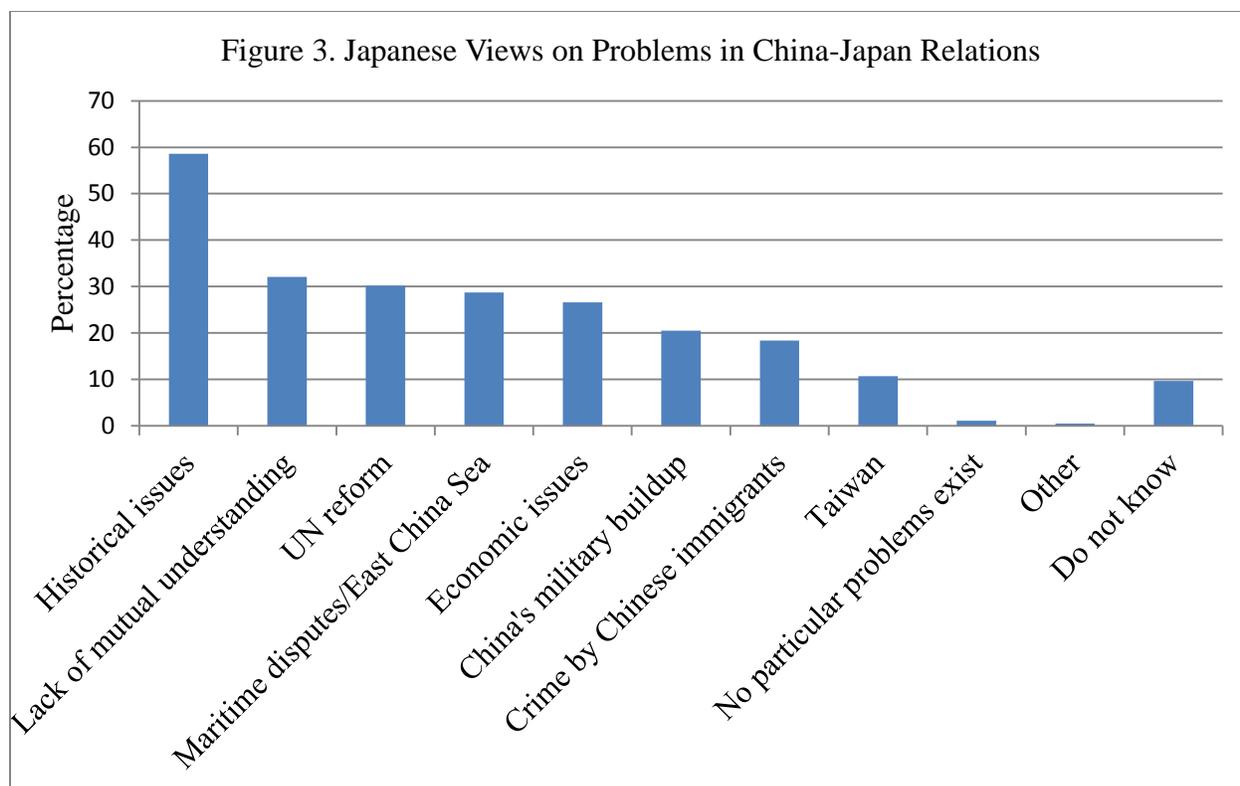
Finally, among Japanese citizens, there was no significant mood shift to precipitate a recalibration of Tokyo's policies toward China. Despite that in the decade from 2001 to 2011 there were burgeoning social flows between China and Japan, with millions of Japanese tourists visiting China, hundreds of thousands of Chinese students studying at Japanese universities,

³ Interviews by Solís (2006) revealed that many members of Japan's business community were interested in a regional FTA including China for its potential to offer an investment protection treaty and a hedge against changes in China's economic policy. However, they did not lobby for FTA negotiations because the strained bilateral relationship presented an unappealing obstacle for Japanese politicians. Also, her subjects said that forging such an agreement was not urgent, since they wanted China to first prove its ability to implement its WTO commitments (Solís, 2006: 7).

thousands of Chinese schoolchildren conducting homestays in Japan, and thirty-four Japanese sub-national governmental offices established in China (many more than in the US), there was not a discernable improvement in Japanese citizens' attitudes toward China (Kang, 2007: 176-177; Jain, 2006: 138). To the contrary, there was a steady downturn in the Japanese public's affinity for China after the anti-Japanese protests in April 2005, which appeared to lift slightly in 2009 only to fall to a new low after the boat collision incident in 2010. Japanese citizens' negative perception of China's approach toward history was a key reason for the drop, although other factors such as maritime disputes and perceived Chinese crime in Japan also triggered apprehension and dislike. Widespread unease about China, paradoxically occurring amidst growing interpersonal exchange, suggested that Japanese society was not amenable to a friendlier configuration of national policy toward Beijing.



Source: Japanese Cabinet Office (Naikakufu, 2010)



Source: MOFA (Gaimusho, 2006)

V. Conclusion

Through evaluation of the hypothetical causal linkages posited by the constraint argument, information argument, and transformation argument, it is clear that there is a multitude of reasons why increasing economic dependence did not result in a closer alignment of Tokyo with Beijing in the early twenty-first century. For one, as evident in the analysis of the constraint argument, after Koizumi became prime minister, Japanese business interest groups and Japanese businesses rarely lobbied the Japanese government to reduce the tension in Japan's relationship with China. A singular attempt in April 2006 by the Doyukai to ask Koizumi not to visit the shrine ended unsuccessfully when the Doyukai's policy proposal met with conservative resistance, while the few individual attempts to criticize the shrine visits went unheeded by

Koizumi and received fierce and intimidating nationalist reactions. In general, business interest groups and businesses did not lobby the government to change its behavior toward China, partly because Japanese businesses did not encounter negative pressure from Chinese feelings about Japanese foreign policy, and partly because Japanese businesses believed that economics and politics ran on fundamentally distinct tracks, so that lobbying would have no influence on their commercial activity with China.

Second, analysis of the information argument reveals that economic dependence led Japan to moderate its China policy in only one instance, namely, the 2001 tariff dispute in which China's sanctions sent a strong signal of commitment to Japan and Tokyo responded by repealing its tariffs on imports of products made in China. Also, China's alleged ban on exports of rare earth minerals during the 2010 Senkaku island boat collision crisis did immediately precede the Japanese government's decision to release the Chinese boat captain, thus possibly contributing to a policy choice that Beijing favored. However, it was unclear whether the sudden drop in rare earth exports was due to Beijing's actual diplomatic strategy during the crisis, or to a preexisting export quota stemming from domestic environmental considerations. Furthermore, after the crisis ended, the Japanese government responded to China's rare earth export decrease by seeking other foreign sources of the minerals and upgrading conservation and alternative product development, not by taking an accommodative policy toward Beijing to secure its rare earth supply. Thus, there was little evidence of the information argument at work in Japan's interaction with China.

Additionally, inspection of the transformation argument indicates a considerable amount of resistance across various segments of Japanese society impeding the formation of an internationalizing coalition amenable to rapprochement. At the political party level, when the

LDP controlled the government, it did not attempt to conduct deep strategic dialogue with China, in spite of its pledge to engage the China-Japan relationship as a “mutually beneficial relationship based on common strategic interests.” Also, over the course of the early twenty-first century, the influence of its pro-China politicians waned, whereas its growing number of young politicians had different historical impressions of the bilateral relationship which made them less inclined to trust Beijing, despite their recognition of the importance of China for Japan’s foreign relations. The DPJ also lacked a coherent policy toward China which obstructed it from accomplishing more than a superficial exchange of visits by the two countries’ leaders in late 2009. Among Japan’s key bureaucracies, MOFA and METI’s generally preferred regional framework for East Asia, the EAS, was in conflict with the APT framework that China desired, while MOF’s agreement to the APT framework for the updated Chiang Mai Initiative was balanced by ensuring that the agreement would be subject to IMF surveillance and conditionality. A fourth key bureaucracy, MAFF, was highly attentive to local agricultural interests and hesitated to support the idea of a regional free trade agreement that would expose domestic producers to foreign competition, which prevented a potential confidence-building mechanism from emerging between China and Japan. Lastly, despite significant growth in interpersonal exchanges by Chinese and Japanese people, Japanese people felt increasingly estranged and uneasy about China, implying that there was little popular momentum for aligning Japan’s political policy closer to China.

The analyses of the three arguments evidence that the limited political influence of Japan’s economic dependence on China was due to both external and internal causes. While the analyses of the constraint and information arguments show that there was little Chinese pressure, at either the individual business or state level, to encourage the moderation of Japanese

government behavior, the analysis of the transformation argument demonstrates that a myriad of domestic elements hindered Japan from having a pro-China policy. Fortunately for Japanese businesses, these various factors did not hamper their pursuit of commercial dealings with China, which generated substantial corporate profit and helped prop up the Japanese economy during its ongoing stagnation. On the other hand, the complex set of reasons why economic dependence did not lessen the conflict in Japan's China policy, particularly in the case of Japanese society where transformation would not necessarily require harm to Japanese economic interests, hints at the error in expecting improved economic interaction to simply erase the political trouble from Japan's relationship with China.

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