



A New Phase for Japanese Policy towards China

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On April 23, 2008, in the run-up to President Hu Jintao's visit to Japan the following month, the Institute for International Policy Studies published a document entitled, "A New Chapter in Japan-China Relations—towards co-existence and co-development that overcomes history—". This document offered eight basic principles, based on the recognition that Japan-China relations were entering a new phase.

Since 2008, however, Japanese popular sentiment towards China has deteriorated, and events such as the Senkaku Islands incident in 2010 have thrown the fragility of the Japan-China relationship into stark relief. The backdrop to the Japan-China relationship has also changed, as China's rapid progress has enabled it to surpass Japan in terms of GDP to become the second largest economy in the world, and the role of China—both globally and in East Asia—has grown more significant. In the aftermath of the Great East Japan Earthquake, Japan faces a significant future burden, and the domestic problems facing China that accompany its economic growth are considerable. In addition, Chinese naval activity in coastal waters is stirring up surrounding countries.

In the wake of these changes in their respective domestic and international environments, the Japan-China relationship is entering a new phase. With 2012 marking the fortieth anniversary of the normalization of diplomatic relations between the two nations, the current challenge is to strengthen the Japan-China relationship, under the rubric of a strategic reciprocal relationship. A changeover in the Chinese leadership is also due in 2012. There is, however, a sense of uncertainty over the future of the Japan-China relationship, and there does not, as yet, seem to be any fundamental conviction in Japan regarding Japanese policy towards China.

Accordingly, following previous recommendations, taking into consideration the current situation in China, and looking toward the coming five to ten years, in this document IIPS will offer proposals regarding a China that would be desirable in the global and regional orders, the ideal Japan-China relationship, and what needs to be done to bring these about.

The essence of the proposals

Japan ought to welcome the fact that China is maintaining its current stability and growth and will continue to prosper in the future, while at the same time it puts a premium on peace and cooperation.

The Japan-China relationship, which in 2012 celebrates the fortieth anniversary of the normalization of diplomatic relations, is one of the most important bilateral relationships—not only for the two nations themselves, but also for the East Asian regional community and the international community as a whole. In the spirit of four foundational documents, the two nations should thus reinforce their strategic reciprocal relationship, while responding appropriately to both domestic and external circumstances.

Now that China has become the world's second largest economy, it represents a growing presence both in East Asia and on the world stage. Meanwhile, it faces numerous problems on the domestic front and is also provoking resentment from surrounding nations for its foreign policy. On the foreign-policy front, Japan should

encourage China to work in harmony with regional and global orders, and to contribute to their preservation, while, on the domestic front, it should encourage China to maintain the social order in an appropriate manner, consistent with the rule of law.

Within the context of a cooperative bilateral relationship, Japan and China ought to complement one other, as Japan is already experiencing the various problems that arise in modern society, while social harmony in the context of economic growth is an important issue for China. At the same time, as two nations facing common problems in the twenty-first century, it would be desirable for Japan and China to find common ground and to be able to work together to resolve the situation. In particular, as the two nations establish closer relations in the economic sphere, Japan should (while acknowledging the attendant problems in this area) encourage China via the political and business communities to expand its economic activities under common global rules, bearing in mind China's importance as a market and as a base of production.

The pending issues between Japan and China are crystallized in the issue of the South China Sea. Japan should quietly strive to preserve its sovereignty, while adhering to the Japan-US Security Treaty; at the same time, however, it must spare no effort in working for peace. In cooperation with surrounding nations, Japan and China should implement a framework for dealing with sudden accidents and enforce the sharing of rules relating to the sea. Regarding issues of historical perception, it will be necessary to build on the past talks between leaders and continue the dialogue. Since improving popular sentiment is also an important issue, the two nations should take measures to enhance mutual understanding, as well as to promote extensive exchanges at the level of ordinary citizens.

In the future, the Japan-China relationship will likely run into various sudden, unexpected incidents in the wake of changes in domestic and external circumstances. In order to avoid repeating past history, the two nations should deal with the various issues flexibly and appropriately, and build a Japan-China relationship that is based on mutual complementarity and in which top priority is given to peace and development.

Proposal 1

At all costs, Japan and China must avoid a course that leads to destruction of the peace, once again, because of their failure to learn from the teachings of history. The two sides must pool their wisdom and strive to ensure that they never repeat their unfortunate history.

Proposal 2

Japan needs to be aware of the possibility that the map of East Asia may be redrawn over the next 50 years. It is possible that, in that time, the line dividing North Korea and South Korea and the dividing line represented by the Taiwan Strait may be subject to change. Such changes may alter the role of the Japan-US security arrangements. Japan must consider how, in light of such changes, the new map could be most favorable to it, bearing in mind the fact that it is China that will wield the greatest influence afterwards. Japan must work tirelessly to influence China so as to achieve the best possible outcome.

Proposal 3

The stability of Chinese society and the sound development of the Chinese economy both serve Japan's national interests. Bearing in mind the various possibilities for the future of China, Japan should engage in exchanges at many different levels of Chinese

society, and build a stable relationship in the economic sphere without irresponsibly tying economic affairs to nationalism or issues of sovereignty. Japan should also encourage China to engage in economic activities under shared rules. Japan must also be aware of issues inherent in the Chinese economy and must be prepared for unforeseen eventualities.

Proposal 4

Japan and China have not fully succeeded in building trust between them, and sudden, unexpected incidents could easily sway popular sentiment. Situations that generate outpourings of nationalism and similar sentiment inhibit ordinary interaction between Japan and China. This vulnerability cannot be remedied overnight; however, the two nations should suppress the incitement of popular sentiment against one another and construct a framework for preventing the escalation of sudden, unexpected incidents. As a first step, Japan and China must spare no effort to improve matters by means such as building trust between political and business leaders, handling issues of historical perception in an appropriate fashion, ensuring reciprocal exchanges across a wide spectrum of activities, and facilitating the exchange of information.

Proposal 5

Given that China is already a leading global power in the political, military, and economic spheres, and that it wields enormous influence, Japan must work to persuade China to uphold the existing global order rather than destroy it. To this end, it should encourage China to share universal values, such as the “rule of law,” and to make a contribution to the global and regional orders.

Proposal 6

Japan should quietly deal with the military threat from China and the various maritime issues on the basis of the Japan-US security arrangements and with the cooperation of surrounding countries. However, it should, at the same time, actively develop military exchanges with China and pursue dialogue with the nation.

Proposal 7

Japan and China must envision a close and durable relationship between them and pursue dialogue. However, they should probably be aware that, to this end, they must build a relationship of mutual complementarity that makes best use of their respective characteristics—namely, the fact that China has, until now, enjoyed a high rate of economic growth and is now encountering the various problems of a modern society, and the fact that Japan has already experienced the various problems of a modern society and is growing stably.

I. An assessment of the current situation in China

(1) Government

- The most significant problems faced by China include preserving the legitimacy of the rule of the Chinese Communist Party, dealing with the transformation in its economic structure as wages rise, and dealing with the rapid shift to an aging society. These problems are wide-ranging and serious, and cut across government, the economy, and society.
- Social disaffection is directed towards the lack of opportunity for political participation and the corruption of officials, such as regional leaders. However, people direct this disaffection against the inequality and irrationality within their own spheres of life, and it does not, at present, necessarily lead to direct criticism of

the central government. The possibility that, over the long term, this will develop into a problem that will shake the very foundations of the regime cannot be ruled out, however.

- Under the socialist system in China, the core of the middle class is made up of that stratum of society that can enjoy the rewards bestowed by the Communist Party and can cooperate with the Party. Hence, it is far from certain that the growth of the middle class will lead to democratization or to a change of regime. However, with the spread of the Internet and the newly emerging possibilities for non-hierarchical communications using new types of media, democratization is probable in the longer term.
- Chinese nationalism ebbs and flows to a certain extent, in accordance with policy, social transformation, and international relations; even so, it is hard to imagine that it will subside in the long term. Japan is an easy target for such nationalism.
- The influence of public opinion in China is on the rise. As long as the government fails to ensure its legitimacy by means of elections, this trend looks set to continue for the time being.
- Although China emphasizes peaceful development and cooperation with the international community, and is trying to step up its activities in all areas of global governance, it still continues to place a higher priority on domestic order and stable rule than on adhering to the basic principles of the international community or complying with the norms of international law.
- Within the central government, the power of the president and prime minister as leaders is somewhat limited, and executive power resides collectively in the hands of the members of the Communist Party Central Committee's Politburo Standing Committee. It is unknown how much influence this collective leadership exerts over the People's Liberation Army (PLA).
- The dominance of the central government over regional governments is likely to continue so as to facilitate personnel management. However, the picture continues to be more complicated in the area of public finances.

(2) Military affairs and defense

- China's defense spending is believed to amount to 2–3 percent of its GDP, and its arms build-up (including the development of nuclear weapons and missiles, and the modernization of its navy) has been remarkable. Of particular significance is China's deployment of submarines and fourth-generation fighter aircraft. By 2020, China will have reached the point at which it will be capable of fighting a land war against Taiwan—and not simply of launching a missile attack against it. This may lead to inevitable changes in the existing security situation in Northeast Asia. In addition, China's disclosure of information regarding its increasing military power is inadequate.
- In the medium and long term, China is aiming to conduct military operations at great distances from its own territory. In keeping with its growing military might, it is stepping up activities in the Pacific Ocean and Indian Ocean, as well as in the East China Sea and South China Sea, which is leading to increasing friction between China and surrounding nations.
- China's possession of an aircraft carrier does not immediately guarantee change in the military balance in East Asia. However, the effect of the symbolic value of the possession of an aircraft carrier on the Chinese public's perception of their homeland and on Chinese nationalism must not be underestimated.

- China possesses a large number of long-range missiles capable of carrying nuclear weapons and is also proceeding with space development.
- On the diplomatic front, China has been stressing a path of peace and cooperation with its neighbors. Meanwhile, however, it is engaging in vigorous military action in surrounding waters. China will first proclaim that the area concerned is within its own territory, and then characterize its military actions as protection of its territory. In recent years, China has been expanding the extent of its territory.
- China has not been slow to participate in United Nations peacekeeping operations (PKO) and peacekeeping forces (PKF). In terms of certain aspects of the NPT (Nuclear Non-Proliferation Treaty) regime, of anti-terror defense, and of non-conventional defense, it also shares interests with the international community and neighboring nations.
- In line with this modernization, the PLA has been streamlined organizationally. In addition, both the relationship between the Communist Party and the military and the relationship between the civilian government and the military are undergoing a transformation in their nature, and there are fears regarding the army's increasing influence on foreign policy and the government, as well as on the free speech of ex-service personnel.
- China has a history of defeat in war in modern times and harbors recollections of a narrow victory in the Second Sino-Japanese War. In light of China's strong sense of victimhood, there exists a keen latent desire in China to demonstrate military superiority.

(3) Society and the economy

- It is hard to imagine China's economy continuing to grow at a rate of 8 percent for the next 10 years. Although the rate of increase in GDP is tied to the performance of senior officials in regional government, it will probably decline gradually over the next five years and settle down to approximately 5 percent by around 2020. However, speculation on the movement of real estate prices and the rise in the inflation rate driven by increasing wages have been remarkable. Above and beyond the story of reduced growth told by the numbers, it is possible that the Chinese economy will reach impasse or that there will be widespread economic stagnation with the bursting of the real estate bubble. The disparities between coastal areas and inland areas, between the coastal regions and the inland regions of the coastal provinces, and between the cities and rural areas of the inland provinces will, in the future, become even greater and grow entrenched. These represent a factor that could easily result in demonstrations and social unrest. In the long term, it is also possible that the number of people working in primary industries will stabilize at approximately 40 percent of the working population, and it will be essential to resolve the problem of family registration in cities versus registration in rural areas.
- Job shortages are already occurring in China. Due in part to the family registration system, university graduates (principally those whose home towns are in provincial regions) are now struggling to find employment, and the so-called "stepping-stones to success" are crumbling. This has been driven by the slowdown in economic growth, and it seems that economic development is becoming a less effective source of legitimacy for the Communist Party. Although the Communist Party regime is unlikely to collapse within the next five to ten years, the possibility cannot be ruled out that it will gradually substitute nationalism for economic development as a source of legitimacy.

- Despite having the second largest economy in the world, China perceives itself as a developing country, and, in the name of economic stability, it has refrained from liberalizing currency trading. This is undesirable in terms of the global economy.

(4) Foreign policy

- Perceiving itself to be a developing socialist country, China has been conducting foreign policy under the rubric of “hiding its talents and biding its time,” which puts a premium on peaceful development with a low profile. In 2006, however, China switched its foreign-policy course, and its diplomatic policy began to take on a more unyielding cast. Recently, it has been trying to revert to a diplomatic-policy course of peaceful development; however, the outcome of this is unknown.
- Chinese foreign policy is founded on the three basic principles of sovereignty, security, and development, and is aimed at protecting and extending China’s national interests. China is also extremely conscious of its international standing, as represented by its status as a permanent member of the United Nations Security Council.
- China is not open to any compromise on matters relating to its core interests, such as the issues of Taiwan, Tibet, and Uighur independence. China has not been consistent on the question of whether it also ranks issues such as the Senkaku Islands and the Spratly Islands as core interests, alongside the three listed above, expressing different positions at different times. For example, China’s behavior has in the past been as follows: after originally ranking its national interests in the South China Sea as core interests, it will then designate its interests in the East China Sea as core interests as soon as an issue arises in the East China Sea; meanwhile, it will no longer place special emphasis on the core nature of its interests in the South China Sea.
- China often forcefully asserts the principle of non-intervention in internal affairs. Recently, however, it has been exploring the possibility of limited “constructive” intervention, as it increases its international clout.
- China is attempting to play an active role in various areas of global governance, for example, by dispatching Chinese (or rather, ethnic Chinese) staff to fill top posts at international institutions and by investing funds.
- Although, as a so-called emerging nation, China is apt to be considered a presence that will shake up the existing global order, its position is consistent with that of a developing nation under that same order. In this regard, China is sometimes an upholder of the existing order and sometimes a challenger to the existing order, depending on the particular field of activity.
- Although China has not been active in the G2 debate, it recognizes that the global order is shifting from a unipolar structure, in which the USA is the superpower, to a multipolar configuration that includes the emerging nations. Enormous importance is attached to the US-China relationship, in acknowledgment of the fact that the relationship between China—as representative of the emerging nations—and the USA has far-reaching global implications.
- Within the international community, China has been a latecomer in various spheres of activity. As a result of this, it has been strengthening its relations with countries criticized by Western nations and Japan. Although this entails risks for China, in some sense relations with these countries strengthen China’s influence within the international community.

- Having essentially resolved its border issues with fellow member nations of the Shanghai Cooperation Organisation (SCO), China is trying to develop this organization into a cooperative framework that also handles issues such as economic affairs. China has also been strengthening its relations with the ASEAN nations, primarily on the economic front. At the same time, it has been engaging in a certain level of cooperation and compromise with them in the security sphere. Having essentially resolved onshore border issues with its ASEAN neighbors, China is proceeding with development projects that straddle borders, such as the Mekong development project. This is leading to economic development for the bordering provinces and autonomous regions within China.
- As well as so-called government foreign policy, China's diplomatic policy also consists of policies carried out by the PLA and the Communist Party. There is also a "private" face to foreign policy, in the form of government-run agencies and companies run by the military.

II The China that the world and the East Asian region would like to see

(1) The rise of China and the global order

The global order is entering a period of transformation due to the rise of China and the rise of the so-called emerging nations, and attention is now focused on the G20, which includes emerging nations, rather than on the G7 or the G8. At present, it is unclear whether the new global order that will be formed in the future will be based on the existing order or be completely different. It would help in the construction of a stable global order in the twenty-first century if the emerging nations—including China—were to regard themselves as beneficiaries of the existing order, and were to contribute to the formation of the new order by means of peaceful dialogue and negotiation with the developed nations. The developed nations ought to tolerate a certain degree of change and adjustment to the existing order in the process.

China's role in the face of the various disputes arising around the world and the emergence of challengers to the existing order will likely increase in the future. The international community expects China to play a role in the Six-Party Talks, on Iran, on Myanmar, and in Africa. It should be conveyed to China that, simply by endeavoring to preserve and develop this global order and contributing to it, China will enhance its global standing.

(2) The global significance of China's economy

It would be impossible to overstate the importance of the world's second largest economy to the global economy. While the economies of the developed nations have floundered, the Chinese economy has continued to exhibit a high rate of growth. Despite facing numerous domestic problems, China remains important as a market and as a base of production. For this reason alone, trends in the Chinese economy feed directly into the global economy. As a result, it is vital that the Chinese economy continue to grow stably and that economic activities in China and trade with the nation be conducted on the basis of global rules. The nations of the world should wage an active and continuous campaign to encourage China in the direction of shared common rules. This should include issues where China displays protectionist tendencies, as exemplified by its currency policies.

(3) The Chinese economy as a presence in East Asia

A remarkable transformation is taking place in the regional order in East Asia, of which China is a part, and the growth of China's influence in the region is striking. Particularly

noteworthy is the number of countries and territories within the region whose economies are becoming increasingly reliant on the Chinese economy. Likewise, China is proceeding with an FTA with ASEAN and is actively strengthening its relations with neighboring nations. China is also enthusiastic about regional cooperation built around economic affairs and has recently been beefing up its presence within institutions such as the Asian Development Bank. China's emphasis on cooperative relations with neighboring countries based on economic relations is conducive to the stability and peaceful development of the region. However, as vital as the stable development of the Chinese economy is to the economy of the region as a whole, it is, at the same time, even more important that economic and trade activity with China be conducted smoothly—under shared rules and with common understanding—and that economic activity in China be based on fixed rules.

(4) The importance of a stable Chinese society

The stability of Chinese society is important both to the world and to the East Asian region, both of which are closely invested in the Chinese economy. Although Chinese politics and society are currently undergoing major transformation, China's neighbors and nations around the world should make a flexible and wide-ranging commitment to place top priority on the stability of Chinese society. To this end, both sides should restrain themselves from using extreme words and actions that might incite nationalism, and they must make specific efforts to construct a framework for preventing the escalation of sudden, unexpected incidents. Bearing in mind the various possibilities for the future of China, nations should also promote exchanges at many different levels of Chinese society—not simply with the Chinese government or the Communist Party, but also within the business and academic spheres and with a diverse range of organizations. The developed nations should also proceed to cooperate with China regarding the nature of the various problems likely to arise in a modern society and the ways in which these can be addressed.

(5) China's international standing

China is attempting to acquire the standing—both in East Asia and globally—that befits the might of a nation that possesses the world's second largest economy. Since modern times, China has harbored a strong desire to recapture its former glories and still retains recollections of being the victim of invasion. China must, however, beware the possibility of this bubbling over into conflict with neighboring nations that also recall being victims of invasion in modern times, and must guard against becoming overly aggressive. China's neighbors and the nations of the world should cooperate in letting China know how it can best represent itself as a major power of international standing, and they should urge it to assume proper responsibility for global problems such as global warming. At the same time, they should express their appreciation when China makes a peaceful contribution to the global or regional order. In this regard, they should watch for Chinese contributions to building peace via the UN and its contributions in various areas of global governance.

(6) Resources and energy

It is believed that behind China's forceful global advance and maritime forays into nearby waters lies its desire to acquire resources. This effort is driven by China's government-run financial institutions and government-run corporations, and China is integrating it into its national policy by combining it with government foreign aid. As exemplified by South Sudan and Angola, China's influence is also increasing in regard to the distribution of resources, which has traditionally been the province of major

Western corporations. However, this is also a result of China's propensity for making advances into states and territories that the developed nations regard as problematical. China's neighbors should probably work together to persuade China that this resource acquisition policy should ideally be carried out as an economic activity under fixed rules and should not be accompanied by military action.

(7) Security and military affairs

In terms of security, China is in a relatively isolated position. It is rapidly increasing its military power in the awareness that it ought to possess a military capability befitting its keen sense of danger and its power as a nation. Although to some degree this represents a threat to neighboring countries and the world in general, it is difficult to curb this as long as China confines its military build-up to within its own sovereign territory. Neighboring countries and nations around the world should encourage China to use its military forces to contribute peacefully to the region and the world, and should continue to engage in military exchanges with China, while requesting the nation be more forthright in disclosing information. Neighboring countries must also remain aware of the possibility that China's military build-up could spark a military confrontation or conflict (most likely in the seas surrounding China) and address this issue. Since there is a strong possibility that activities such as China's acquisition of resources, which is underpinned by its military might, will provoke nationalism (both in China and abroad) and will undermine regional and global stability, the nations involved need to cooperate and deal with these activities.

China is currently trying to avoid linking issues of sovereignty and security with economic issues. Neither neighboring countries whose economies are closely linked to the Chinese economy nor the rest of the world have any wish for China to tie sovereignty and security issues to economic affairs, either. For the sake of the development and prosperity of the region, China's neighbors should request that it not tie issues of sovereignty and security to economic issues.

(8) Maritime issues

The most significant points of contention between China and its neighbors are crystallized in the maritime issues. This came to particular prominence in 2010. Even as it touts peaceful development and cooperation with its neighbors on the one hand, China is taking a hard-line stance over territorial issues in the South China Sea and East China Sea. Neighboring nations must unite in protest against China's expansion of its sphere of influence through military force, must exchange and share information on China's maritime forays, and must take measures to counteract them. These nations—as well as China—must also enhance maritime governance and establish mechanisms for curbing the escalation of sudden, unexpected incidents. With regard to maritime rules, they must spare no effort in working towards shared concepts, for example, by means of dialogue regarding interpretation of the United Nations Convention on the Law of the Sea.

III Getting along with China—what attitude should Japan adopt towards its neighbor?

Since the normalization of diplomatic relations between Japan and China in 1972, the bilateral relationship has essentially grown stronger, and this has been realized in the form of the four foundational documents. The two nations are aiming to make the current relationship more diverse and global in nature, under the rubric of a strategic reciprocal relationship. As Japan's largest trading partner, China is also important as a market and a production base. However, the environment in which the bilateral relationship exists is changing rapidly, with China's recent rise and Japan's decline in

power as a nation, exacerbated, in part, by the Great East Japan Earthquake. Serious problems also exist, such as issues relating to the East China Sea, as shown by the Senkaku Islands issue; issues regarding the trade rules that reflect the close trade relationship between the two nations; resource issues, such as the rare-earths issue; issues of food regulation; and historical issues. As a result, in each country, popular sentiment towards the other is deteriorating enormously.

Japan needs to be aware of the possibility that the map of East Asia may be redrawn over the next 50 years. This may entail change to the line dividing North Korea and South Korea and the dividing line represented by the Taiwan Strait, and may also affect the role of the Japan-US security arrangements, which is related to these two boundaries. The presence of China will greatly influence this new map. Bearing in mind the kind of map that would be most favorable to it, Japan must continue to strive to avoid the worst possible outcome and steer towards the best possible outcome.

At all costs, Japan and China must avoid a course that leads to destruction of the peace, once again, because of their failure to learn from the teachings of history. The two sides must combine their wisdom and strive to ensure that they never repeat their unfortunate history.

Japan should thus clarify its view of its own national interests and maintain a firm conviction, based on this view, regarding the way in which it should face up to China in the region. Japan should not panic as events unfold before it but should deal soberly with China on the basis of this conviction. First, this conviction should encompass the fact that the stability of Chinese society and the sound development of the Chinese economy both serve Japan's national interests. With regard to Chinese society, Japan should bear in mind the various possibilities for the future of China and engage in exchanges at many and diverse levels of Chinese society. Regarding the Chinese economy, Japan should encourage China to conduct activities on the basis of shared rules and to refrain from tying issues of sovereignty and security to economic affairs. Japan should also be aware of issues such as vulnerabilities in the Chinese economy and should prepare for unforeseen eventualities.

Second, since situations that generate the eruption of problems involving nationalism and similar sentiments inhibit ordinary interaction between Japan and China, the two nations should suppress activities that would incite popular sentiment against one another and construct a framework for preventing the escalation of sudden, unexpected incidents.

Third, given that China is already a leading global power in the political, military, and economic spheres, and given that it wields enormous influence, Japan should encourage China to uphold the existing global order rather than destroy it. To this end, it should encourage China to share rules, for example, by adhering to the "rule of law," and to make a contribution to the global and regional orders.

Fourth, Japan should quietly deal with the military threat from China and the various maritime issues on the basis of the Japan-US security arrangements and with the cooperation of surrounding countries. However, it should, at the same time, actively develop military exchanges with China and seek dialogue with the nation.

Based on these various points, Japan and China should calmly and unemotionally consider a new relationship between them that corresponds to the recent transformations in their respective domestic and external environments, and should pursue dialogue with

one another. To this end, they should consciously build a relationship of mutual complementarity that makes the best use of their respective characteristics—namely, the fact that China is still enjoying a high rate of economic growth and is now encountering the various problems of a modern society, and the fact that Japan has already experienced the various problems of a modern society and is growing stably.

In addition, Japan and China have not fully succeeded in building trust between them, and sudden, unexpected incidents can easily sway popular sentiment. This kind of delicate situation cannot be rectified overnight. As a first step, however, Japan and China should strive to improve matters by means such as building trust between political and business leaders, handling issues of historical perception in an appropriate fashion, ensuring exchanges across a wide spectrum of activities, and facilitating the reciprocal exchange of information.

(1) The basis of the Japan-China relationship

Proposal 1

At all costs, Japan and China must avoid a course that leads to destruction of the peace, once again, because of their failure to learn from the lessons of history. The two sides must pool their wisdom and strive to ensure that they never repeat their unfortunate history.

- Japan and China have essentially been intensifying their bilateral relationship along the lines set out in four fundamental documents. Currently, the two nations are intending to further intensify the relationship under the rubric of a strategic reciprocal relationship. Serious issues exist, however, such as sovereignty and security issues and issues of popular sentiment. Issues relating to the East China Sea are particularly serious, and the possibility of military confrontation cannot be ruled out.
- A single, small-scale military confrontation or sudden, unexpected incident would have a catastrophic effect on popular sentiment in both Japan and China (whose level of mutual trust is low), and it is difficult to rule out the possibility that—even in the twenty-first century—the two nations will once again repeat the history of the previous century.
- The two sides should proclaim peace itself to be the bottom line for the Japan-China relationship in the twenty-first century. Japan's convictions regarding China should rest on this fundamental premise, and Japan should shape the Japan-China relationship on this basis.

(2) Northeast Asia and the Japan-China relationship in the twenty-first century

Proposal 2

Japan needs to be aware of the possibility that the map of East Asia may be redrawn over the next 50 years. It is possible that, in that time, the line dividing North Korea and South Korea and the dividing line represented by the Taiwan Strait may be subject to change. Such changes may alter the role of the Japan-US security arrangements. Japan must consider how, in light of such changes, the new map could be most favorable to it, bearing in mind the fact that it is China that will wield the greatest influence afterwards. Japan must work tirelessly to influence China so as to achieve the best possible outcome.

- At present, it appears that preservation of the status quo is the order of the day in North Korea and the Taiwan Strait. Taking the longer view, however, various changes could well occur over the coming 50 years.

- If the line dividing North Korea and South Korea and the dividing line represented by the Taiwan Strait change, the role of the Japan-US security arrangements may be altered. Adherence to the Japan-US security arrangements is the dominant principle of Japan's foreign policy. However, in regard to what might constitute a favorable outcome for Japan after changes in these dividing lines in Northeast Asia, Japan would be required to deal with the new situation with clear conviction, based on the spirit of the Japan-China Joint Communiqué and the Treaty on Basic Relations between Japan and the Republic of Korea.

(3) The stability of Chinese society and the Chinese economy

Proposal 3

The stability of Chinese society and the sound development of the Chinese economy both serve Japan's national interests. Bearing in mind the various possibilities for the future of China, Japan should engage in exchanges at many different levels of Chinese society, and build a stable relationship in the economic sphere without tying economic affairs to nationalism or issues of sovereignty. Japan should also encourage China to engage in economic activities under shared rules. Japan must also be aware of issues inherent in the Chinese economy and must be prepared for unforeseen eventualities.

- As China's neighbor, and with an economy closely linked with the Chinese economy, Japan should first affirm that it would welcome a stable society and sound economic growth in China.
- However, China's prosperity should not threaten or harm the surrounding region, and, ideally for Japan, the economic order should be preserved under shared rules.
- It would also be highly undesirable for Japan and China's other neighbors if the economic affairs that are important to them were to be tied to the sovereignty issues that are important to China. Ideally, issues of sovereignty would not arise in the first place; however, when they do, China should be encouraged not to link them to economic issues.
- The stable growth of Chinese society will allow China to mature as a market and a production base. Thus, with regard to the ideal nature of the order and governance needed by Chinese society, Japan should bear in mind the various possibilities for China's future and engage more actively in exchanges at various levels of Chinese society—not simply with the Chinese government and the Communist Party.
- In light of history, mutual economic dependence does not immediately lead to stable relationships. As it builds its relationship with China, Japan should actively evaluate the benefits it can derive—all the while remaining aware of the "China risk." It should also pin down the attractive and problematic aspects of Chinese markets, and hedge against the risks involved.
- Specifically, Japan should consider Vietnam and Indonesia (both prospects for future growth) as possible bases of production in addition to China; should make use of the Economic Cooperation Framework Agreement or ECFA (the FTA between China and Taiwan) through joint ventures with Taiwanese companies, in order to make inroads into Chinese markets; and should cooperate with neighboring countries whose values and outlooks are the same as those of Japan, for example, by engaging in joint investments with Singaporean companies.
- Regarding the excessive outflow to China of technological know-how built up by Japanese small- and medium-sized companies, and the purchase of Japanese real estate with Chinese capital, Japan must grasp the extent of these phenomena and

check to see whether any issues of illegality or national security are arising (while still maintaining the principles of a free economy).

- Japan must remain aware of the possibility that the Chinese real estate bubble will burst or that the Chinese economy will suddenly stagnate, and must prepare to deal with unforeseen situations.

(4) Popular sentiment and trust-building

Proposal 4

Japan and China have not fully succeeded in building trust between them, and sudden, unexpected incidents could easily sway popular sentiment. Situations that generate outpourings of nationalism and similar sentiment inhibit ordinary interaction between Japan and China. This vulnerability cannot be remedied overnight; however, the two nations should suppress the incitement of popular sentiment against one another and construct a framework for preventing the escalation of sudden, unexpected incidents. As a first step, Japan and China must spare no effort to improve matters by means such as building trust between political and business leaders, handling issues of historical perception in an appropriate fashion, ensuring reciprocal exchanges across a wide spectrum of activities, and facilitating the exchange of information.

- One of the most significant problems facing the current Japan-China relationship is the issue of popular sentiment. The two governments cannot fail to be aware of the deterioration in popular sentiment and are exercising restraint in their diplomatic policies as a result. With trust between the two sides still inadequate, sudden, unexpected events could easily sway popular sentiment. Although the media have refrained from sensational reporting to some degree, they should be careful to guard against making tit-for-tat statements that would incite popular sentiment on the opposite side.
- The deterioration in popular sentiment has not occurred overnight—it is the product of education in schools, media reporting, and domestic upbringing over the course of a long period of time. In China, there is a tendency to regard Japanese perceptions of history and Japan's security policies as problematic, while in Japan, there is a tendency to see China's transformation into a military superpower and the nature of Chinese rule as problems.
- The rise of popular sentiment driven by nationalism inhibits ordinary exchanges between the two nations, such as economic activity. For this reason, Japan and China should construct a framework enabling them to prevent situations in which a sudden, unexpected incident, such as a maritime accident, might adversely affect sentiment on both sides. At the same time, the two nations should engage in building trust—first, at the leadership level, but also in a multi-faceted manner across a diverse range of arenas, such as government, business, and academia.
- A variety of misunderstandings and suspicions have cropped up between Japan and China. The two nations should engage in suitable exchanges of information as well as other reciprocal exchanges, and should work towards better mutual understanding.

(5) China and the global order

Proposal 5

Given that China is already a leading global power in the political, military, and economic spheres, and that it wields enormous influence, Japan must work to persuade China to uphold the existing global order rather than destroy it. To this end, it should

encourage China to share universal values, such as the “rule of law,” and to make a contribution to the global and regional orders.

- The global order is currently undergoing a period of transformation. As a member of the G7, however, Japan would like to preserve the existing order. In some senses, China is also a beneficiary of the existing order, and nations—including Japan—should make China fully aware of this and should encourage it in areas such as regional cooperation, assistance, and the adoption of rules governing economic activity.
- The same is applicable to the East Asian region. Japan should engage in exchanges of views with South Korea and the ASEAN nations regarding the kind of China that they would like to see, and should work in concert with these countries in dealing with China.

(6) Security and the issues in the East China Sea

Proposal 6

Japan should quietly deal with the military threat from China and the various maritime issues on the basis of the Japan-US security arrangements and with the cooperation of surrounding countries. However, it should, at the same time, actively develop military exchanges with China and pursue dialogue with the nation.

- Japan should calmly keep a watch on China’s military build-up, and should proceed to deal with it soberly and strategically. However, it would be inadvisable to either overreact to China or to compromise with it too easily. Japan should quietly demonstrate its intention to protect its sovereignty and territory, and to defend the Japanese homeland.
- Japan’s own defense efforts and the Japan-US Security Treaty will be important in the defense of the homeland; however, Japan must also continue to cooperate closely with the free nations and regions of the Asia-Pacific region (such as South Korea, Taiwan, and Australia), as well as with NATO.
- In the East Asian region, China’s military build-up—coupled with its failure to disclose information—represents a potential threat and is raising tensions with surrounding nations.
- There are certain spheres in which the nations of Northeast Asia—including Japan and China—share common regional interests, such as the non-conventional defense area. It will be necessary to construct frameworks for cooperation in these areas as well.
- As China’s erstwhile opponent in the Anti-Japanese War, Japan is an easy target for Chinese nationalism, and there is a tendency for this to lead to irresponsible talk of confronting and defeating Japan—even by military means. In this regard, direct exchanges with Chinese military officials will be of great significance.
- Cyber-security represents a new issue for the Japan-China relationship. Japan must deal with cyber-attacks emanating from China, in cooperation with the USA and other nations that are involved.

(7) A mutually complementary Japan-China relationship

Proposal 7

Japan and China must envision a close and durable relationship between them and pursue dialogue. However, they should probably be aware that, to this end, they must build a relationship of mutual complementarity that makes best use of their respective characteristics—namely, the fact that China has, until now, enjoyed a high rate of

economic growth and is now encountering the various problems of a modern society, and the fact that Japan has already experienced the various problems of a modern society and is growing stably.

- As well as shared challenges, there are also issues within the Japan-China relationship where Japan will take the lead, and issues that are peculiar to China. In meeting the shared challenges, the two nations should exchange views and take the necessary measures. However, the two nations also need to establish a relationship of mutual complementarity—for example, Japan, which has already gone through the various problems that arise in a modern society, can serve as an example for China and offer China the benefit of its experiences.
- In the future, China will encounter the problem of a rapidly aging society. Japanese society has experience of the various problems that arise in relation to issues such as social-welfare policy and an aging society. These matters could also present Japan and China with an opportunity to construct a new cooperative framework.

