

Japan's Economic Diplomacy towards China:
The Lure of Business and the Burden of History

Maike Okano-Heijmans

November 2007

NETHERLANDS INSTITUTE OF INTERNATIONAL RELATIONS
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CIP-Data Koninklijke Bibliotheek, The Hague

Okano-Heijmans, M.W.A.

Japan's Economic Diplomacy towards China: The Lure of Business and the Burden of History / Maaïke Okano-Heijmans– The Hague, Netherlands Institute of International Relations *Clingendael*.

Clingendael Diplomacy Papers No. 14

ISBN: 978-90-5031-119-9



Desk top publishing by Desiree Davidse

Netherlands Institute of
International Relations *Clingendael*
Clingendael Diplomatic Studies Programme
Clingendael 7
2597 VH The Hague
Phonenumber +31(0)70 - 3746605
Telefax +31(0)70 - 3746666
P.O. Box 93080
2509 AB The Hague
E-mail: cdsp@clingendael.nl
Website: <http://www.clingendael.nl>

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Introduction

Accounts of political and economic relations between Japan and the People's Republic of China (hereafter, China) generally make strong assumptions about the impact of history on relations between the two countries. Few would dispute that Japan's Prime Minister Koizumi Junichiro's visits (prime minister from 2001-2006) to the Yasukuni Shrine¹ and the revision of Japanese history textbooks intervened in bilateral political relations. Opinions of government officials, representatives of the private sector and academics about the influence of collective memory on economic relations differ widely, however. Only few argue that the two fields are not at all related, and many recognize the interference of historical issues in economic diplomacy, albeit to

An earlier version of this paper was presented at the 5th International Convention of Asia Scholars (ICAS5) in Kuala Lumpur, Malaysia, 2-5 August 2007. The author wishes to acknowledge helpful comments to earlier drafts by Glenn D. Hook, Jan Melissen, Frans-Paul van der Putten and Kurt W. Radtke.

- 1) The Yasukuni Shrine is a Shinto shrine in the centre of Tokyo that commemorates Japan's are dead since the 1868 Meiji restoration. The souls of almost 2.5 million soldiers are enshrined, including — since 1978 — those of 14 Class-A war criminals convicted after the end of the war in the Pacific. From the time of disclosure of this enshrinement in 1979 until 1984, three Japanese prime ministers visited the shrine twenty times. China appealed for the first time in 1985, when Japan's Prime Minister Nakasone paid a visit. Repeated visits since 2001 by Prime Minister Koizumi developed into one of the most pressing disputes over historical issues between Japan and China. For a useful, detailed account of the history of Yasukuni Shrine and the disputes, see: Togo (2006).

varying degrees.² Most views present a partial truth but disregard the challenge of integrating and underpinning arguments.

This paper aims to add to greater understanding of the interrelatedness between political and economic relations and the legacy of war and colonial dominance through detailed investigation in concrete settings. It does so by analysing the domestic institutional setting and four features of Japan's economic diplomacy towards China during the last decade, and comparing these findings to expressions of collective memory and public perceptions.

The period from 1997-2006 is of particular interest in view of Japan's attempts to refocus its economic diplomacy in East Asia at a time when China increasingly challenges the Japan's regional leadership in the economic field and the region enters a new period of 'Asians only' cooperation. Not only is China's growing economy catching up in terms of size, but China is also using economic tools to strengthen its relationship with countries in the region. Furthermore, China's expanding economy and the increasing importance of its financial sector alter both China's and Japan's relations with the United States, and thereby the regional setting at large. Naturally, security considerations also have a role in this process, not in the least since Japan is still the closest ally of the US in the region. Within Japan, the effects of China's rise are directly recognizable at the governmental level and indirectly at the public level, as public sentiment transforms politicians' behaviour and thereby government policy, and vice versa.

The Argument

The discrepancy in perceptions in the economic, political and public spheres is a crucial factor in the rather schizophrenic state of affairs that characterizes Japanese-Chinese relations during the last decade. This is often simplified in the 'cold politics, hot economics' (*seirei keinetsu*) catchphrase, but academic analysis of the subject is virtually non-existent. Collective memory is obviously not the only domestic factor shaping Japan's economic diplomacy. Changing perceptions of Japan's role in the world and the region, and anxiety

2) Interviews with representatives of IDE-JETRO, JETRO, MOFA, METI, Nippon Keidanren, Japan-China Economic Association, Japan Research Institute and Waseda University in March-April 2007. See also: Mochizuki (2007), Takahara (2004) and various authors in *China Brief* (2 May 2007). Yahuda (2006) is exceptional in addressing the subject in more detail. It is regularly asserted that, while no single occurrence can be traced back to issues of collective memory, the bilateral relationship and negotiations at large are negatively affected. Some argue that historical issues are consciously and strategically employed by politicians. In the eyes of yet others, Japan has learnt to build domestic consensus, as a result of which the effect of historical and political issues on negotiations has declined. While (semi-)government officials working in the economic field tend to downplay the impact of historical and political issues on economic relations, no generalizations can be made as to what opinion is representative of a certain group.

over the economic downturn and necessary structural reform are among other factors that have a role to play. These are all in turn related to collective memory, however.

This paper does not treat either economic diplomacy or historical issues exhaustively, but aims to add to understanding of the link between the two fields of study through four detailed case studies. The *central hypothesis* is that collective memory intervenes in political relations more than in economic relations because economics is governed by business leaders with a long-term outlook, while politics is managed by politicians with a short-term view embedded in a political culture coloured with historic experiences. Both business leaders and politicians are expected to adopt a pragmatic view, facilitated by financial gain and obtained votes respectively. As financial gain is not affected by history, while votes are (that is, the ideas and identity of the public), trade relations between Japan and China are expected to have remained relatively stable even when issues of collective memory emerge, while political relations and official ties between the two countries are markedly negatively affected. Obviously, the artificial distinction between the political and economic spheres is made for analytical purposes only: in reality, the two are entangled and overlap in many ways. This natural interrelationship is taken as a given and addressed throughout the argument.

Concepts and Case Studies

Definitions of economic diplomacy are hard to find and frequently reduced to characterizations. Bayne and Woolcock are a case in point with their argument that economic diplomacy is about the (decision-making) process rather than structures, and that its main concern is with international economic issues. They proceed that in economic diplomacy, governments try to reconcile three types of tensions: (1) tension between politics and economics; (2) tension between international and domestic pressures; and (3) tension between government and other actors, such as private business and NGOs.³ Going beyond such rather broad political economic considerations, Suh more specifically characterizes economic diplomacy in four dimensions: scope and territory; level and strength; influence (seen from the other country); and time-frame. He argues that economic diplomacy can be performed through ‘candy’ (*ame* — economic aid or ‘carrots’) and ‘severity’ (*muchi* — economic sanctions or ‘sticks’).⁴ While Suh’s argument, like that of Bayne and Woolcock, provides helpful analytical tools, the need for a concise definition remains. Lee’s definition of commercial diplomacy as ‘the work of a network of public and private actors who manage commercial relations using diplomatic channels and processes’ provides a useful start. This

3) Bayne and Woolcock (2003), chapter 1.

4) Suh (2004), pp. 8-9.

characterization aptly captures the actors and process of not only commercial but also of economic diplomacy. However, the management of commercial relations is obviously not central to economic diplomacy. Attention should focus on instead on policy formation and purpose, which are distinctive elements of economic diplomacy.

A broad but helpful definition is given by Berridge, who states that economic diplomacy is ‘(1) diplomacy concerned with economic policy questions [...], and (2) diplomacy which employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective’. This last phenomenon, he adds, is sometimes known as ‘economic statecraft’.⁵ This paper largely employs Berridge’s definition, but differs from it in an emphasis on economic diplomacy pursued by central government, not considering the role of diplomatic missions. The obvious reason for this is that the focus of attention is on policy formation and domestic developments, which are in turn related to collective memory.

Collective memory in political culture is about the relationship between remembered pasts and constructed presents. Following Olick and Levy, it is here defined as ‘an ongoing process of negotiation through time’. Collective memory, as such, is thus more encompassing than the ‘history problem’ and closely related to national identity, which is chosen (even if not always consciously) and likewise subject to change.⁶ Both collective memory and national identity develop through the social construction of reality and are profoundly shaped by the interaction between those who govern — providing information and (dis)incentives for social cohesion — and those who are governed — trying to make sense of all this.

The extent to which collective memory interferes with economic diplomacy is influenced by the domestic institutional setting, the actors involved and the way in which the public perceives the other, in this case China. The analysis will therefore start with a brief overview of the domestic framework and an outline of the most prominent historical issues in Japanese-Chinese relations and Japanese perceptions of China.

How and when collective memory intervened in economic diplomacy since the 1990s is analysed in four case studies: (1) summitry, practiced by Chinese President Jiang Zemin in 1998 and Japanese Prime Minister Koizumi

5) Berridge (2005), p. 81.

6) On collective memory, see Olick and Levy (1997). On nationalism as an instrumental social construction, see Haas (1993). Rose (2004), p. 4, defines the ‘history problem’ as ‘encompassing problems relating to the content of Japanese school history textbooks since the 1980s, revisionist interpretations of the war in Japan in the 1990s, and the very different understandings of the events of the war as depicted in war museums and memorials in both countries. It also refers to the problems relating to the attempts by various Japanese governments to settle the past with China (which includes apologies, educational initiatives, and official visits to Chinese memorials and museums), while simultaneously attempting to satisfy the needs of Japanese citizens to commemorate the war and memorialize their own war dead’.

Junichiro between 2001 and 2006; (2) the trade disputes of 2001-02; (3) Japan's strategic use of ODA to China; and (4) Japan's regional diplomacy, to the extent that it indirectly addresses China. The four cases have been selected for their significance as turning points in Japan-China relations since the 1990s — in particular 1997-2006 — and for involving expressions of both economic diplomacy and collective memory. While the former two address specific times of official negotiation at which political and economic relations and historical issues flared up simultaneously, the latter two illustrate longer-term developments and (lack of) strategic thinking on economic diplomacy and collective memory.

Taken together, the case studies demonstrate that historical issues intervene in economic diplomacy directly and indirectly, and at the multilateral, bilateral and domestic levels. Collective memory undermines generally positive economic relations, especially in periods of transition. It does so mostly in predetermined and on-going negotiations, and because of public pressure and policy-makers' prioritization of personal beliefs over general interests.

Bilateral Relations and Domestic Actors

In the years following the end of the war in the Pacific, years before the official establishment of diplomatic relations in 1972, the Japanese sought to expand trade with China. Many pro-China Japanese were deeply committed to Chinese economic reconstruction, but relations were developed only to the extent that they would not undermine Japanese-US relations.⁷ The 1970s and 1980s were characterized by trade that was conducted cooperatively by the Japanese private sector and government. In the 1990s economic relations progressively intensified, even as political relations between Japan and China grew increasingly tense. Throughout the post-war period, politicians and interest groups actively influenced government, but as private companies guided the liberalization of the 1990s, the interrelatedness between the political and economic fields and the influence of private business on government policy gained new momentum.⁸

China's rapid economic growth did not lead to a real sense of crisis in Japan until the 1990s about the economic threat that China might pose. In

7) In the 1950s, trade relations existed only at the private level, taking a semi-governmental turn throughout the following decade. The pluralistic structure of trade relations that developed in the 1960s was based on the 'three trade principles' introduced by China's Zhou Enlai with the commencement of 'Friendship Trade' in 1960: governmental agreement (to be concluded eventually); private contact (in the meantime); and individual consideration. See Soeya (1998), p. 60; and Radtke (1990).

8) Zang (2005), p. 61.

the midst of Japan's domestic economic recession, however, the 'China threat' argument (*kyoiron*) gained momentum as imports from China accelerated, Chinese companies rapidly enhanced their competitiveness and fear of hollowing out of the Japanese economy increased. This sentiment started to change around 2003, when business circles and government officials developed a more pragmatic and balanced perception of China, and the 'China threat theory' developed into the 'China special procurement theory' (*tokushuron*).⁹ At the macro-level, the opportunities of China's growing export market were recognized. Furthermore, the profitability of Japanese investments started to improve and local Chinese companies were increasingly interested in business partnerships with Japanese counterparts.¹⁰ The China threat theory and a sense of competition rather than complementarity nevertheless persisted in certain industries, particularly the agricultural sector.

While businesses at the higher end of the value chain and, albeit more hesitantly, government elites thus developed an increasingly favourable view of China, public sentiment responded incrementally to the more positive economic environment. By 2003 the China threat argument had generated mutually hostile perceptions among the Japanese and Chinese people. Renewed nationalism developed in both countries that was — importantly — largely an expression of domestic changes.¹¹ The negative trend in public sentiment on both sides was a response to the transforming position of Japan and China in the world and region, and, more directly, to politicians' harsh

9) Considering the historical association of the term, it is interesting to find that from 2003 '*tokushuron*' was found in Japanese writing of China as a business opportunity. *Tokushuron* was in the 1970s and 1980s used in relation to the '*nihonjinron*' (literally, 'theories about the Japanese') discourses, discussing the uniqueness of the Japanese, their society and language. The dual connotation of Japan's — positively regarded — uniqueness and — somehow little understood — rarity that the term then had in relation to '*nihonjinron*', suggests that with regard to China's rise, a generally positive but still somewhat reticent sentiment was aired.

10) Munakata (2003); and Tsugami (2003).

11) Against the backdrop of changes in the political, economic and security fields, nationalism in both countries grew: in China because the Chinese were gaining self-confidence; and in Japan because the Japanese were losing self-confidence (Takahara (2004), p. 158). While the Japanese desired to be more outspoken and proud of their country, the Chinese people wanted to be able to speak more freely. Various authors have argued that public expressions of Chinese nationalism should be interpreted as a sign of dissatisfaction with the Chinese Communist Party as much as with the Japanese government, as leaders of the Chinese Communist Party and Chinese nationalists have deliberately fuelled anti-Japanese sentiment in order to channel public dissatisfaction away from the party. When anti-Japanese sentiments from 2004 became so strong that they threatened to have a detrimental impact on Chinese-Japanese relations, party officials started to mould public opinion towards a more positive perception of Japan. On Chinese nationalism, see Gries (2004). In-depth analysis of the historical background, causes and meaning of Chinese expressions in a purely domestic setting is beyond the scope of this research, as the focus here is foremost on processes and developments in Japan.

rhetoric of the other country towards their own constituents. While governments on both sides wanted to avoid discussion of the past and concentrate more on the future, civil society in Japan and China became most interested in seeking solutions to those problems, which they felt had not yet been fully resolved and on which their respective government should be taking a stronger position.¹² In this way, the perceptions of business representatives and government on the one side and the public on the other grew increasingly apart from 2003. This development did not fail to leave its impact on Japan's economic policy-making with regard to China.

Actors in Economic Diplomacy

A striking paradox characterizes the link between the political and the economic in Japanese-Chinese relations. Despite official insistence from the Chinese side on the inseparability of politics and economics (*seikei fukabun*), the two were effectively separated already in the 1960s.¹³ The Japanese generally followed a policy of separation of political and economic spheres (*seikei bunri*) throughout the post-war period, but took a pragmatic approach and adhered to Chinese insistence on inseparability to be included in early post-war documents. As both countries speak of 'cold politics, hot economics' to characterize the early years of the new millennium, the Chinese can now be said to have officially moved away from inseparability of the two spheres. Politicians from both countries have mostly supported a *de facto* distinction and in fact Prime Minister Abe Shinzo (prime minister from September 2006-September 2007), in his *Towards a Beautiful Country*, explicitly argued for a separation of politics and economics.¹⁴

At the international level, cooperation between government and business has been almost mute: the Japan Business Federation (*Nippon Keidanren*, hereafter Keidanren) has organized its own trade missions to China, including meetings of the Chairman with senior Chinese government officials. In contrast with many other countries' regular practice, businessmen have until recently not accompanied the prime minister on official summits.¹⁵ At the domestic level, however, coordination and cooperation between government and the private sector is large, in practical economic diplomacy through development aid and free-trade agreements, and in the policy process by

12) Rose (2004), p. 13.

13) Soeya (1998), p. 16. The principle of inseparability of politics and economics was — with the three basic principles — included in the 1968 trade communiqué.

14) Abe (2006), pp. 152-153. This view was strongly opposed by Parliament Member and former LDP Secretary-General Koichi Kato (2007), pp. 275-276.

15) The group of more than 200 businessmen that accompanied Prime Minister Abe on his official visit to India in August 2007 shows that this is now changing. 'New Delhi and Tokyo Pledge Closer Cooperation on Security', in: *Financial Times*, 23 August 2007.

providing direct input through official statements and policy recommendations as well as research groups.¹⁶ This notwithstanding, the ‘iron triangle’ — that until the early 1990s was used in reference to the LDP, big business and bureaucrats — has throughout the past decade come to be used in reference to the ‘policy community’ consisting of a particular interest group, the respective policy tribe (*zoku*) and the respective unit in the national bureaucracy. One result that is also recognizable in Japan’s China policy has been that policy is decided on a more *ad hoc* basis.¹⁷

The way and extent to which public and private actors in the field of Japan’s economic diplomacy towards China have the potential to shape the decision-making process is governed by the institutional framework in which they operate. In the case of Japan, this justifies a focus on government officials, politicians and business interest groups. Other actors in economic diplomacy include trade unions, consumer organizations, civil society (including NGOs), international organizations and epistemic communities.¹⁸

Although the case studies do not elaborate on the role and position of each actor, a brief overview of the most important government agencies and business interest groups that are active in the field of Japan’s economic diplomacy is valuable for our general understanding. Within government, these are notably the Ministry of Foreign Affairs (MOFA), the Ministry of Economy, Trade and Industry (METI), the Ministry of Finance (MOF), the Cabinet Office and the agency charged with ODA policy (since 2003 the Japan International Cooperation Agency — JICA). Private business has organized itself at the national level in Keidanren and the Japan Association of Corporate Executives (*Keizai Doyukai*).¹⁹ The Japan-China Economic Association (*Nicchu Keizai Kyokai*) is the most comprehensive of the group of seven semi-governmental (*seifu garami*) groupings engaged in Japanese-Chinese economic relations.²⁰ The METI-affiliated Japan External Trade Organization (JETRO) has close links with both Keidanren and the Japan-

16) The relationship between government and business in Japan has been subject to great change, particularly since the reforms that started in the 1990s. Whereas Johnson (1982) characterized Japan as a state-guided market system, Hasegawa (2006) critically argues that today the Japanese government is guided by big business.

17) Shiozaki (2002).

18) Woolcock in Bayne and Woolcock (2003), chapter 3.

19) The important distinction between the two is that *Nippon Keidanren* accepts only corporate members (senior representatives of big companies) while *Keizai Doyukai* gathers members on an individual basis.

20) Other groupings have a narrower or regional focus, including the Japan-China Investment Promotion Association (*Nicchu Toshi Sokushin Kiko*), the Japan-China Long-Term Trade Committee (*Nicchu Choki Kyogi Inkai*) and the Japan-China North-East Development Association (*Nicchu Tohoku Kaihatsu Kiko*).

China Economic Association, and thereby provides another link between (semi-) public and private groupings.²¹

The present analysis focuses on the government and business spheres and considers the general public to the extent that expressions of collective memory by this group influence policy-makers.

21) Cooperation and exchange of information between the government agencies involved in Japanese economic diplomacy towards China is reportedly not optimal. One illustration of the rivalry may be a relatively recent speech by Japan's Minister for Foreign Affairs on the role of his ministry in economic diplomacy, in which Aso Taro fails to mention any other government actor involved. More generally, while the various public and private groupings reportedly have (complementary) research groups, cooperation leaves much to be desired (interviews in Tokyo, March-April 2007). Although this phenomenon can hardly be called typical of Japan, it is exceptional to the extent that virtually all Japanese research institutes are closely affiliated with a ministry, private company or individual. They thus represent specific interests, which adds to a sense of competition.

Narratives of the Past and Public Perceptions

Fujiwara gives a useful analysis of the difference between the constructed realities that constitute collective memory in Japan and China. He argues that discussions on the war in the Pacific and the colonial past between Japan and neighbouring countries originate in separate narratives.²² These are the Hiroshima and Yasukuni narratives on the Japanese side, and the Nanjing narrative in China and other countries neighbouring Japan. As the different discourses do not overlap, they effectively obstruct constructive interaction between their respective adherents because of lack of knowledge of, respect for and willingness to understand the other. Fujiwara describes the Hiroshima narrative as a liberal discourse, focusing on Japanese civilians rather than non-Japanese victims. It emerged as part of a dynamic shift of self-definition and identity towards a more civic kind of nationalism. The Yasukuni narrative constitutes a narrower discourse of the Japanese military and soldiers, and focuses on experience of the war. These two Japanese narratives fundamentally differ from the Nanjing narrative, which focuses on the victims of Japanese aggression. Fujiwara, in line with Buruma, argues that in employing the Hiroshima narrative, the Japanese emphasize the pacifist

22) Kiichi Fujiwara, lecture and discussion at the European Roundtable entitled 'Symbols, Images and Knowledge: Shaping Japanese Historical Memory' at the University of Sheffield,

20) April 2007. For a general understanding of his thought, see Fujiwara (2001).

discourse of the experience of Japanese civilians during the war, leaving other accounts as 'hidden narratives'.²³ Japan's focus on the Hiroshima discourse can be explained because this narrative is virtuous, while others are shameful. The Japanese people truly believe(d) themselves to be victims, not only of the Allied Forces' air raids but also of their own government.²⁴

These observations shed light on the question of why issues of history related to the war in the Pacific have remained unresolved until the present day. Rather than speaking *with* one another, both sides merely speak *to* one another.²⁵ While other countries, including China, raise historical issues as a moral problem, Japan reduces them to a technical problem.

Historical Issues and Public Perception

Tensions over historical issues augmented rather than eased as the region in 1995 remembered the fiftieth anniversary of the end of the war in the Pacific. The opening of the Showa Hall in Tokyo — originally planned for 1995 — is symbolic of the renewed attention for the war and its meaning in contemporary Japan.²⁶ Given the striking absence of Asia, the Hall is a clear expression of Japan's Hiroshima narrative.

Bilaterally, relations between Japan and China gradually deteriorated from the mid-1990s. The question of historical responsibility was the primary trigger of friction.²⁷ The Japanese started to understand China's potential in economic and (regional) leadership terms, and at the time regarded its rise as a threat rather than a possibility. Profound changes in the Japanese political climate and an economic downturn had fuelled feelings of uncertainty.²⁸

23) Buruma (1994).

24) For a detailed study on Japanese victimhood, see Orr (2001).

25) In a somewhat similar fashion, Tamamoto argues that in its emphasis of technique over reason, or 'how' over 'why', the Japanese avoid the question of responsibility to the greatest extent possible. Tamamoto (2003), p. 203.

26) The Hall, as a facility to honour and memorialize Japan's war dead and their families, and its approach to memorialization, were subjects of long and intense domestic debate. While the politically active Association of Bereaved Families (*Izokukai*) has been the most visible advocate for its construction, the Showa Hall was built and continues to be funded by the central government. It thereby represents the government's 'first foray into the semi-permanent memorialization of the war'. See Smith (2002), p. 37.

27) Morris-Suzuki (2007), p. 3.

28) The until-1993 unrivalled leadership of the Liberal Democratic Party was challenged and in 1994 Murayama led the first socialist-led government since 1948.

Table 1 Chronology of Collective Memory Issues emerging between Japan and China (1997- 2006)	
Date	Event
1997 Sep	Japan's Prime Minister (PM) Hashimoto visits China — first post-war PM to visit north-east
1998 April	Controversy over book <i>The Rape of Nanking</i> at the political level
July	<i>Manga</i> (cartoon) 'On the War' by right-wing nationalist cartoonist Kobayashi Yoshinori
Nov	Chinese President Jiang Zemin is first Chinese head of state to visit Japan
1999 Mar	Opening of the Showa Hall (<i>Showakan</i>), memorializing Japan's war dead
Aug	Japan's Chief Cabinet Secretary comments on enshrinement of A-class war criminals in <i>Yasukuni</i>
Aug	Official recognition of the <i>Hinomaru</i> and <i>Kimigayo</i> as national symbols
2000 Jan	Diet establishes commissions in both houses to study <i>constitutional revision</i>
Dec	China appeals against <i>textbook reform</i> during authorization process in Diet
2001 April	New history <i>textbook</i> approved for use in Japanese schools from 2002
	Chinese call on Japanese government to 'correct all errors' in new history <i>textbook</i>
May	NPC chairman Li Peng cancels visit to Japan because of <i>textbook</i> problem
July	Japanese government states that it cannot satisfy China's demands for <i>textbook</i> revision
Aug	Japanese PM Koizumi visits <i>Yasukuni Shrine</i> for the first time
Oct	PM Koizumi visits China, expresses 'heartfelt apology and condolences [...]'
2001-2002	Sino-Japanese security dialogue interrupted because of textbook and Yasukuni issues
2002	'Japan-China Year': thirtieth commemoration of diplomatic relations
Feb	PM Koizumi tells Upper House of the importance of <i>strengthening Japan-China relations</i>
Apr	PM Koizumi visits <i>Yasukuni Shrine</i> for the second time; <i>cancellation</i> by the Chinese of the visit to China of the Director-General of the Japanese Defence Agency (now ministry)
Aug	PM Koizumi pledges to 'firmly maintain the nation's <i>anti-war pledge</i> '
Sept	Advisory Group set up to Consider a Memorial Facility for Remembering the Dead and Praying for Peace — report published in December
2003 Jan	PM Koizumi visits <i>Yasukuni Shrine</i> for the third time
Aug	Accident in China caused by <i>abandoned chemical weapons</i> of the former Japanese Army
Oct	<i>Anti-Japanese riot</i> in Xian
2004 Jan	PM Koizumi visits <i>Yasukuni Shrine</i> for the fourth time
July	Hiroshima's High Court rules that Japan should repay Chinese forced labourers
Aug	<i>Anti-Japanese outbursts</i> at the Asian Cup soccer matches
Nov	PM Koizumi indicates that it may be time for <i>China to 'retire from ODA'</i>
2005 April	<i>Anti-Japanese protests</i> in China over <i>history textbook</i> , finally cooled down by China's Premier Hu
May	PM Koizumi speaks in Diet: 'there is no reason to stop visiting <i>Yasukuni Shrine</i> '; visiting Chinese Vice-Premier Wu Yi suddenly returns to Beijing
Aug	Yomiuri chief Watanabe Tsuneo begins publishing <i>articles and book on Japan's wartime record</i>
Oct	PM Koizumi visits <i>Yasukuni Shrine</i> for the fifth time
Nov	Japan's LDP presents 'Draft for Revision of Constitution' on the fiftieth anniversary of its formation
2006 July	Japan's Emperor Showa (Hirohito) found to have stopped visiting <i>Yasukuni Shrine</i> in 1978 because of enshrinement of Class-A war criminals
Aug	PM Koizumi visits <i>Yasukuni Shrine</i> for the sixth time
Oct	Japanese PM Abe visits China and South Korea soon after instalment
Dec	First meeting of the Japan-China Joint History Research Committee

Table 1 presents a chronology of collective memory issues that, through extensive press coverage, had a vast impact on public opinion and thereby a profound influence on Japanese-Chinese relations. Attention goes primarily to the way in which the Japanese and Chinese governments have at certain times deliberately attempted to politicize or depoliticize specific issues. Which issues have (not) been taken up and how have the outcomes of these processes affected public discourse and national identity? The most notable and recurring issues include the Yasukuni Shrine, (revision of) Japanese history textbooks, Japan's apology for wartime wrongdoings, anti-Japanese demonstrations in China, and books and articles on (government attitudes towards) the war in the Pacific.²⁹ The so-called comfort women and Japan's constitutional revision have also been raised in bilateral relations, but have generally not led to strong appeals on the Chinese side and will therefore not be considered in much detail.³⁰

Trends in Collective Memory and Public Perceptions of China

Correlation of the emergence of historical issues with numbers of Japanese travellers to China and public perceptions of China sheds light on the interrelatedness of political relations and collective memory.³¹ Official data from the Japanese and Chinese national tourist organizations presented in Figure 1 show that the number of Japanese visitors to China increased overall throughout the period from 2000-2006.³² The notable exception, however, is 2003, when the number dropped drastically. This coincided with anti-Japanese protests that took place in Xian that year, although those in

29) For detailed accounts on these issues, see, for example, Caroline Rose (2000 and 2004), Peter H. Gries (2004) and Shimizu Yoshikazu (2003).

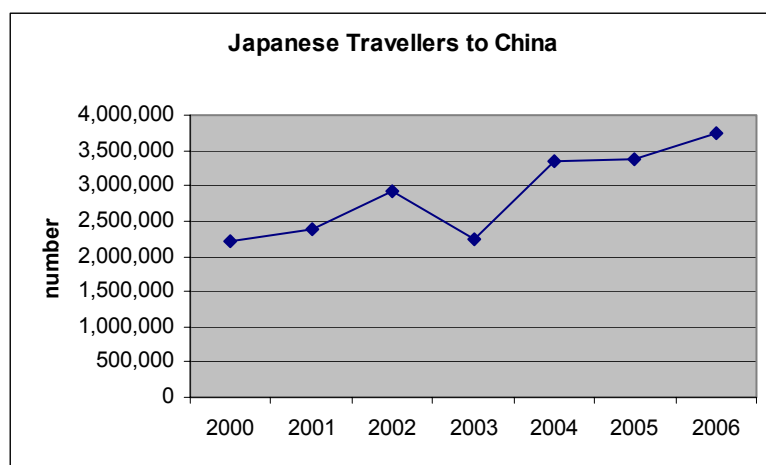
30) The comfort women issue is predominantly between Japan and South Korea. The Chinese government generally prefers not to take the issue up bilaterally and regards it mostly as a problem at the individual level. With regard to constitutional revision, the Chinese government has been relatively quiet because the issue is not of immediate concern. Moreover, it does not fit the Chinese narrative of a reviving Japanese militarism because considerable opposition exists even within Japan (interview with a representative of the Foreign Ministry, Tokyo, March 2007). Asked to comment on the constitutional revision draft presented by Japan's ruling party, Chinese Foreign Minister Liu said in 2005 that 'Japan's pursuance of peaceful development is not only in its own interest, but also conducive to safeguarding regional peace and stability', in: *People's Daily Online*, 24 November 2005.

31) Although the chronology and the numbers are only general and no fine conclusions can be drawn, these figures provide general insights into public sentiment that cannot be gained in another way.

32) No data are available for the preceding period. The numbers of Chinese visitors to Japan are included for reference purposes only. These started at a much lower base and have increased on the whole, albeit at a relatively slower pace in 2003 and 2005.

themselves do not appear to justify the large fall. The year 2005 stands out for its relatively small percentage growth. Significant increases in the number of Japanese travelling to China are observed in 2002 and 2004. Apart from being an indication of the generally positive trend, the first number may be a result of the exchanges and festivities that took place on the occasion of the thirtieth commemoration of diplomatic relations. The vast increase in 2004 is most likely attributable to the Asian Cup (football competition), which was held in China in summer 2004. Of particular interest is the significant drop in Japanese travellers in 2003. The number remained largely unchanged in 2005, indicating that while the Asian Cup and its aftermath surely did not give the positive impulse that might have been expected normally, it also did not significantly affect the number in a negative way. The same can be said for the anti-Japanese demonstrations that took place in 2005, as the Japanese showed relative willingness to visit China, as evidenced by the increase in travellers the following year. Taken together, the numbers thus do not appear to be heavily influenced by issues of collective memory.

Figure 1



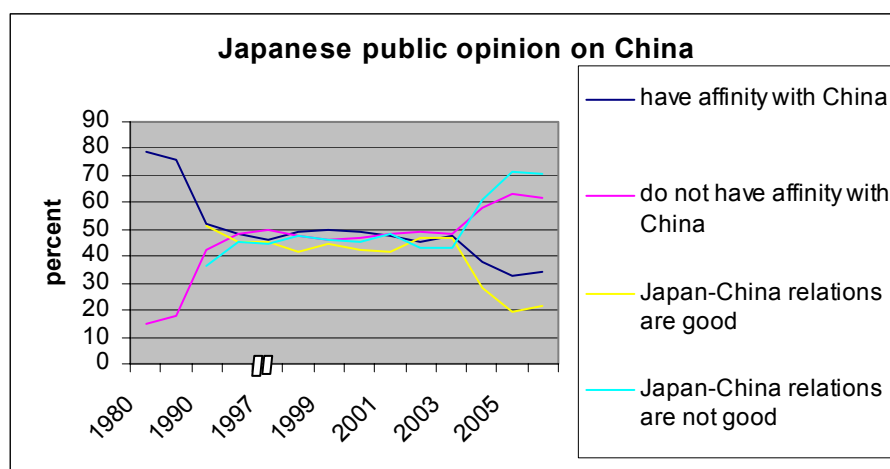
Source: <http://www.tourism.jp/english/statistics>.
(Official data of the China National Tourism Administration)

The Japanese Cabinet Office has since the 1980s systematically conducted public opinion polls on bilateral relations and affinity with China. Figure 2 presents the findings of these polls.³³ Opinions on affinity of the Japanese with China and Japan's relations with China were relatively stable and evenly divided between good and not good between 1995 and 2003, always fluctuating between 40 and 50 per cent. The numbers greatly diverge in

33) Note that figures are presented on a five-yearly basis until 1995 and on a yearly basis between 1997 and 2006.

preceding and subsequent years, with opinions in the period until 1985 generally positive and after 2003 generally negative.

Figure 2



Source: Japanese Cabinet Office, public opinion polls.

Surveys on Japanese public perceptions of China relative to other countries have been regularly conducted since the 1960s.³⁴ These show that while the number of Japanese who indicate that they ‘like’ China grew steadily in the years after normalization of bilateral relations in 1972, the number dropped significantly between 1985 and 1990 and remained generally stable at about ten per cent in the 1990s. The number decreased slowly from 2001, but plunged to an all-time low of less than five per cent in 2005.

The first remarkable downturn in the percentage of Japanese with positive perceptions of China and simultaneous increase in the number of people with a negative perception of China in both surveys thus took place in the late 1980s and early 1990s. Three occurrences can be regarded as having been particularly conducive of this trend: the strong dissatisfaction shown by the Chinese government over the visit of Japanese Prime Minister Nakasone to the Yasukuni Shrine in 1985; the Tiananmen Square incident in 1989 and its aftermath; and China’s nuclear tests in 1995 — symbolically, before and just after the fiftieth anniversary of the end of the war in the Pacific.³⁵ The

34) Respondents are asked to list three countries that they like and dislike from a group of nine countries (the United States, Russian Federation, Great Britain, Germany, France, Switzerland, India, South Korea and China). For more details, see Muroya (2006), p. 6.

35) While other officials had visited the shrine in preceding years, the Chinese in 1985 severely criticized the visit of Japanese Prime Minister Nakasone. In response to the strong Chinese response, Prime Minister Nakasone took a conciliatory approach and did not visit Yasukuni Shrine again while Prime Minister. Notably, Nakasone in 2005 urged Koizumi to stop his pilgrimage to the shrine.

further sharp downturn from 2004, which is apparent from both surveys, appears to be a consequence of continuing disputes at the governmental level, mostly over issues related to collective memory. The paradoxical difference that emerged after 2003, between (worsening) Japanese attitudes and (increasing numbers of) travellers to China, nevertheless indicates that negative perceptions do not preclude a healthy interest by the Japanese in their giant neighbour.

Summitry: Jiang's Historic Visit and Koizumi's Flaw

Summitry is valued for its enormous symbolic potential. At the same time, the quality of summits is not undisputed and it is said that summitry is always risky and may sometimes be highly damaging to diplomacy.³⁶ Analysis of Japanese-Chinese summit meetings shows that both assertions are especially true for this bilateral relationship. Furthermore, the stalling of summits is clear evidence of the intervening role of collective memory in the political as well as economic field.

Chinese Head of State Visits Japan

In November 1998, Chinese President Jiang Zemin became the first Chinese head of state to pay an official visit to Japan. The summit was a historic event, but did not turn out to be the unqualified success that both sides had hoped. In fact, it became a turning point with (at best) mixed results, of which the Japanese public has markedly different memories than government officials, for while the Japanese public holds a mostly negative view, the Japanese government stresses a profoundly positive account. The contradiction stems from the fact that in public memory the visit is recalled for its political legacy

36) Melissen (2003); and Berridge (2005), pp. 173-184, among others.

in relation to history issues, while in most officials' perception the economic outcome and broader political significance of the summit dominate.

Jiang's visit marks the ending of the 'friendship diplomacy framework' that had emerged after normalization of bilateral relations in 1972, and which culminated in 1992 in the visit of the Japanese Emperor to China.³⁷ Taken together, and with an eye on the future, the Obuchi–Jiang summit can be seen as the first signal of an unfolding era of economic pragmatism, or 'cold politics, hot economics'.³⁸

Two important events that preceded the Japanese–Chinese summit impacted largely on Jiang's stay in Japan: the visit by US President Bill Clinton to China in June 1998; and the visit of Japanese Prime Minister Obuchi to South Korea in October 1998. Both meetings enhanced Chinese confidence and expectations, and thereby effectively planted the seeds for dissatisfaction and the political clash in Tokyo.³⁹

As might have been expected of a first-ever bilateral summit in Japan, war history was an omnipresent factor in meetings, particularly so in the political realm. As evidenced in the summit proceedings, President Jiang sharply and repeatedly spoke of wartime history and Japanese wrongdoings in China.⁴⁰ This general stance and particularly Jiang's remarks addressed to the Japanese Emperor at the state banquet at the Imperial Palace, which was televised to the Japanese public, antagonized many Japanese — even the pro-China group.⁴¹ Most Japanese felt that Japan had apologized for wartime wrongdoings on many occasions, including the Emperor's visit to Beijing in 1992. With this in mind and reasoning from the Hiroshima narrative in which the Japanese themselves were (also) victims of the war, the Japanese did not see the need to comply fully with Chinese requests for apologies. Japanese Prime Minister Obuchi, during his meeting with Jiang, thus expressed 'heartfelt apologies' in an oral statement, but refused to include this wording

37) Mochizuki (2006), pp. 135–142, maintains that the 'friendship diplomacy framework' was undermined in the 1990s by generational change, change in party politics in the conservative political leadership and attitudinal shifts at the popular level, and that Jiang's visit marked its effective conclusion.

38) An early reference can be found in *Chugoku Soran [China Compendium]* (2004), p. 146.

39) President Clinton's visit marked the end of a period of diplomatic chill in Chinese-US relations that had followed the 1989 Tiananmen Square incident and resulted in sanctions imposed by the United States. The effect of Obuchi's visit to South Korea was more indirect and originated in the Japan–South Korea Joint Declaration. This document included a statement of 'deep remorse' and 'heartfelt apology', which was offered by the Japanese prime minister to South Korea's President Roh on the occasion of this summit; see also Sato (2001), pp. 5–12.

40) Press Conference by the Press Secretary, 26 and 27 November 1998, Japanese Ministry of Foreign Affairs, available at <http://www.mofa.go.jp>.

41) Interview with a representative of the Japanese Ministry of Foreign Affairs and Japan Institute for International Affairs, 29 March 2007; and Sato (2001).

in a written statement as had been done with the South Koreans one month before.⁴²

Despite setbacks in the political field, the results of the summit meeting were profoundly positive in the economic sphere. The Joint Press Announcement on Strengthening Cooperation between Japan and China towards the Twenty-first Century, which was signed on the occasion, was important in specifying cooperation on international issues including multilateral trade and the East Asian economy.⁴³ Furthermore, the Joint Press Announcement proposed 33 areas of Japanese-Chinese cooperation. These were for the greater part related to economic diplomacy at large and industry-specific cooperation, and included Japanese investment and cooperation in China and cooperation in the development of inland regions of China.⁴⁴ The growth in bilateral trade and the new wave of Japanese foreign direct investment in China that started in 2000 are indicative of the impulse that this agreement gave to economic relations.

Retrospectively, the summit meeting is said to have been a ‘personal catharsis for Jiang, a leader with negative personal memories of Japan’s military expansion’.⁴⁵ Political rhetoric softened after the summit, when advisers convinced Jiang that antagonizing the Japanese would be against China’s national interest. Mochizuki argues that a lot of the credit for improvement of bilateral relations after the summit has to go to the softer and more conciliatory approach of Chinese leaders towards Japan. During the return visit of Japanese Prime Minister Obuchi to China a year later in 1999, China did not raise historical issues, and Jiang in 1999 and 2000 entertained a Japanese parliamentary delegation and members of the Japan-China Tourism Exchange Mission. Furthermore, China’s Premier Zhu Rongji adopted a rather conciliatory tone during his visit to Japan in 2000, and China’s leaders seemed to use historical issues less as a lever to extract concessions from Japan than as a means to counter what they see as a resurgence of Japanese

42) Sato (2001) argues that the reason was threefold: (1) the prime minister did not want to harm the dignity of the Emperor; (2) he was concerned about calls in the LDP; and (3) Obuchi failed to gain a critical concession from China — that is, that it would refrain from raising historical issues at future summits. Unfortunately, there was no official signing ceremony as there had been one month earlier with the South Korean prime minister. Going against public expectations, this only added to negative public perceptions. While it remains unclear whether there was no such ceremony planned in the first place or whether it was cancelled as the Chinese objected to inclusion of a mere expression of ‘deep remorse’, the fact is that the harm was done. Gries (2004), p. 90, among others, suggests that the ceremony was cancelled; while Sato (2001), p. 12, argues that the ceremony was intended for other documents, not specifically for the Joint Declaration.

43) Takahara (2004), p. 166; and Sato (2001).

44) Sato (2001), p. 17, notes that this list was originally to be termed a ‘Joint Action Plan’ — a name later refused by the Chinese.

45) Mochizuki (2006), pp. 140-141.

nationalism.⁴⁶ In short, China increasingly invested in stable and cooperative relations with Japan.

The divergence between public and official perceptions of the summit, and the importance that both governments attach to the Joint Declaration of 1998, became evident again in 2005. On 28 April 2005 — soon after the outbreak of anti-Japanese demonstrations in China — the Chinese *People's Daily* reprinted the full text of the Joint Declaration with a comment from Chinese Ambassador to Japan Wang Yi.⁴⁷ The timing suggests that it should be interpreted as a clear sign of the importance that the Chinese government attached to bilateral relations and of its intention to improve the relationship between both governments and the Chinese public's perceptions of Japan.

Koizumi Prioritizes Personal Choices

The interruption of regular summit meetings in both capitals during most of Koizumi's tenure became symbolic of the 'cold politics, hot economics' era. The prime cause of the suspension of meetings, and thereby the most obvious intervention of collective memory in bilateral relations, was the prime minister's visits to Yasukuni Shrine. Koizumi was strongly convinced that China should not be allowed to use the issue of Class-A war criminals' enshrinement as a 'history card' to gain diplomatic leverage over Japan. He thus continued his visits even when it became clear that the Chinese government took a firm stance on Yasukuni.⁴⁸ Nevertheless, Koizumi was a stubborn leader more than a nationalist, as evidenced by his otherwise conciliatory stance towards China. His apologies for war-time wrongdoings and his depiction at the 2002 Boao Forum of China as an opportunity for Japan are exemplary of this. The Chinese government's symbolically hard stance was softened by the meetings that took place between the Japanese prime minister and the Chinese president and premier between 2002 and 2005 in third countries, on the sidelines of multilateral and regional gatherings including the G8 and APT (ASEAN Plus Three, which includes the ten ASEAN members plus China, Japan and South Korea).⁴⁹

46) Yahuda (2006), p. 174.

47) Wang stated that the Declaration had three important points, namely: (1) both countries 'confirmed for the first time' that the Japan-China relationship was 'one of the most important bilateral relationships'; (2) the two countries 'attained a new and important recognition for correctly facing and handling history and the Taiwan issue'; and (3) they confirmed that 'the range of the Sino-Japanese relationship clearly exceeds the two countries'; see Masuda (2005), p. 4.

48) Koizumi did show some consideration to the Chinese, however, by lowering the profile of his visit. For example, he wore informal attire on his visit in 2005.

49) The tripartite meeting of Japan, China and Korea within the auspices of the APT was suspended in December 2005.

While the impact of the suspension of meetings was mostly felt in the political field, implications were in the long term also felt in the economic sphere. General negotiations, including on trade agreements, as well as specific economic projects were hampered. President Hu Jintao explicitly commented, for example, that Koizumi's visits to Yasukuni Shrine were an obstacle to negotiations on the ordering of the rapid-transit railway (*Shinkansen*) system by the Chinese.⁵⁰

Rather than reflecting the sentiment of the governments at large, the dispute between the two governments mostly became attached to the person of Koizumi and the firm stance that the Chinese had taken on the Yasukuni Shrine — leaving both sides with no choice but to maintain their stance or lose face. It thus took a change in Japanese leadership to solve the issue. The keen desire of both governments to mend ties was clearly expressed in the visit of newly appointed Prime Minister Abe Shinzo to China within two weeks of the inauguration of his Cabinet. This was also the first time that a Japanese leader had chosen Beijing over Washington for a first official visit abroad. Broader consequences of the standoff became evident, however, when it became clear that a significant part of the Japanese public had developed a negative image of China which proved more difficult to counter. While governments on both sides were ready to settle disagreements pragmatically, public perceptions had come to a low.⁵¹

Importantly, the foundations for Abe's 'ice-breaking' visit in October 2006 had been laid more than half a year earlier by Prime Minister Koizumi, who appointed pro-China politician Nikai Toshihiro as Japan's Minister for Economy, Trade and Industry (METI) in his third Cabinet. Nikai was well positioned to provide an impulse for improvement of relations at a lower than prime ministerial level, which both sides clearly desired despite the continuing public row over historical issues. In the words of a METI official, improvements in bilateral relations might have been achieved from 2005 with another minister, but the fact that the openly pro-China Nikai was in this position certainly added to the improvement of ties.⁵² Minister Nikai provided a counter-balance against the generally pro-US posture of Prime Minister Koizumi and his Reform Minister Takenaka. He effectively saw to it that relations with China improved in the run-up to the LDP elections (and thereby the changing of the Japanese prime minister) and laid the foundation for Abe's visit to China.

50) Hu reportedly made this observation during his meeting with Keidanren chairman Okuda in September 2005, 'The Truth behind Secret Talks between Nippon Keidanren's Okuda and Chinese President Hu', in: *J-Cast Business News*, 1 December 2007; also, interview with a JETRO official in Tokyo, 30 March 2007.

51) This is certainly not to say that the Japanese public generally supported Koizumi's visits to the Yasukuni Shrine. Rather, the downturn in perceptions should be attributed to the broader context and struggle for power and legitimacy between the two governments.

52) Interview in Tokyo, 5 April 2007.

The Chinese government clearly showed its appreciation for Abe upon his sudden resignation in September 2007. A Chinese Foreign Ministry spokeswoman praised Abe for his ‘active and constructive role in developing China-Japan ties’.⁵³ Since Abe — more than Koizumi — was known as a staunch nationalist who did not shun controversial rhetoric about Japan’s war history, the Chinese government’s statement should clearly be attributed to Abe’s commitment to improvement of the official bilateral relationship in the sense of overcoming the Yasukuni issue.

53) Xinhua News Agency, 12 September 2007.

Trade Disputes and Political Conflicts

This second case study of Japan's economic diplomacy towards China and the interrelatedness with collective memory deals with trade friction and negotiation in economic disputes. Economic relations between Japan and China involve trade, investment and economic cooperation (mainly ODA). The focus here is on trade and investment, particularly the trade disputes that occurred in 2001-2002. These disputes coincided with political conflicts over history-related issues, which were caused primarily by the introduction of a new history textbook in Japan.

As mentioned earlier, trade between Japan and China was initiated long before the normalization of diplomatic relations in 1972. Imports and exports grew in the 1980s and 1990s, and volumes surged after China became a member of the World Trade Organization (WTO) in 2001. Japan's exports to China grew from 2.6 trillion yen in 1998 to 10.8 trillion yen in 2006, while imports expanded from 4.8 trillion yen to a peak of 13.8 trillion yen in the same years.⁵⁴

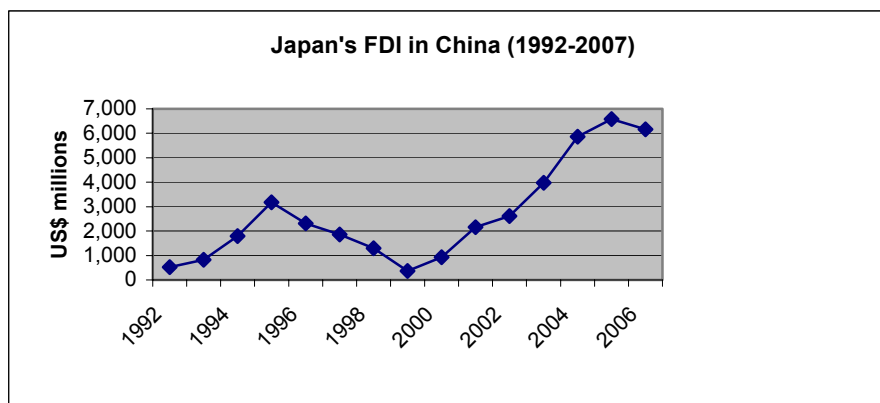
Bilateral trade balances have little economic meaning, however, particularly in a region like East Asia, which is characterized by regional production networks and vertical intra-industry integration. Shifts in foreign direct investment (FDI) provide a better indication of economic trends.⁵⁵ As Figure 3 shows, a wave of Japanese investment in China took place in the

54) Japanese Ministry of Finance statistics (Tax Office).

55) This was pointed out by a METI official during an interview in Tokyo, 5 April 2007.

early 1990s. Following a low of US\$ 360 million in investments in 1999, another wave of investment began in 2000.⁵⁶ This boom was likely fuelled by the impulse that the 1998 Jiang-Obuchi summit gave to economic relations and by China's entry to the WTO. Proactive attempts by Keidanren to unify policy and to assist government added further momentum to this upward trend. In its annual report of 2001, Keidanren identified China as Japan's top foreign policy concern in the immediate future. The clearest expression of the grouping's attempt to influence policy is the document entitled *Japan-China Relations in the 21st Century* of February 2001,⁵⁷ where Keidanren presents extensive policy recommendations addressed to central government, and acknowledges history problems in a critical but politically correct manner, while seeking pragmatic solutions.

Figure 3



Source: JETRO, *Japanese Trade and Investment Statistics*, available at: <http://www.jetro.go.jp/en/stats/statistics>.

Japanese investments in China peaked in 2005 and investments slightly decreased thereafter. First correlation with trends in public perception suggests that the figures — at least until 2005 — are largely unrelated. Political tensions and increasingly negative Japanese public perceptions of China have not kept private Japanese businesses from investing in China in the early years of the new millennium. The downturn in FDI from 2006 may indicate that this is changing, but it is too soon for any definite conclusion in this regard.⁵⁸

56) This was the third investment boom, preceded by large increases in investment in 1970 and 1990.

57) Nippon Keidanren (2001).

58) A METI official suggested that the decline is attributable to the first investments in facilities by companies such as Toyota and Nissan coming to an end; interview in Tokyo, 5 April 2007.

Uncertainty as China Enters the WTO

Trade disputes occur often.⁵⁹ It is generally in the interest of all parties concerned — governments as well as businesses — that these are not fought in public. According to a METI official, the number of trade disputes in 2001 and 2002 was not very different than usual.⁶⁰ Why was it then, that in the midst of rapidly growing trade and investment and active contributions by Keidanren, trade disputes broke out into the open? This question becomes particularly pressing if one realizes that the (six) products in total involved less than one per cent of total bilateral trade at the time, suggesting that the disputes were more political than economic.⁶¹ The answer revolves around Japanese discourses on China, which at the time were based on fear that China would rapidly increase exports and hollow out the Japanese economy. China's cost competitiveness was particularly threatening for Japan's domestic low-end industries with high-cost structures, which face the need for structural reform. A growing number of Japanese companies moved to China to produce products for the Japanese market. The new, uncertain period that started with China being a member of the WTO added to this 'China threat theory'. In other words, bilateral economic relations entered a transition period, in which both governments sought to redefine their role in the region and to defend this position towards their respective constituencies. Japanese politicians were in a particularly difficult position, as disputes between companies operating in Japan and China were in reality between Japanese companies: Japanese companies producing from China; and Japanese companies producing within Japan.⁶²

The trade disputes between Japan and China started in April 2001 when Japan invoked 200-day safeguard measures on mushrooms, rushes (*tatami*) and Welsh onions. Through the board of the powerful JA (Japan Agricultural Cooperatives) as well as through local communities, Japanese producers had successfully pressured the ruling LDP because of increasing anxiety over the boom in imports from China.⁶³ Considering the political importance of (full- and part-time) farmers, the LDP subsequently lobbied the Japanese Ministry

59) In the 1990s, trade disputes between Japan and China had generally taken one of three forms, namely product competition, defects of Japanese products and issues related to intellectual property rights; see IDE-JETRO (2002), p. 3. In the context of domestic discussion on how China threatened the division of labour within Japan, it is no coincidence that trade disputes in the early years of the new millennium arose chiefly in the field of agriculture — a highly protected industry in Japan, with constituents that have long been vote-winners for the ruling LDP.

60) Interview in Tokyo, 5 April 2007.

61) IDE-JETRO (2002), pp. 17-18.

62) The towel dispute that occurred in late 2001 is exemplary of this; interview with a representative of the Japan Research Institute, 3 April 2007.

63) This outline of the trade disputes draws heavily on Yoshimatsu (2002).

of Agriculture, Forestry and Fisheries (MAFF) to overcome its initial reluctance to imposing safeguard measures. China suggested at an early stage that the friction should be settled at the private-sector level, rather than in a state-versus-state framework.⁶⁴ As the Japanese refused, however, China retaliated in June 2001 by levying tariffs on Japanese cars, air conditioners and (mobile) phones. This response can be regarded as typical for the era of globalization in which the trade dispute occurred: it was an indirect, targeted response, aimed at where China expected to cause the greatest controversy between Japanese industries and politicians for China's benefit. In other words, China successfully employed the new reality in which increased trade and capital movements make it impossible for a state to insulate a particular issue or sector.⁶⁵ Its retaliatory action hurt Japan's most symbolic and internationally competitive export items, with vast interests in China and beyond.

Coinciding with the dispute over agricultural products, a trade dispute over towels occurred between Japan and China. Declining Japanese competitiveness had since the 1980s resulted in rising imports and subsequent calls for restrictions from textile producer associations. Being a strong supporter of free trade, the Japanese government was, however, extremely cautious. The Japanese stance changed slightly from the mid-1990s, and in 2000 political attention to the textile industry increased sharply. Towel producers could then proceed with a safeguard petition. In the midst of the agricultural trade dispute with China, the Japanese government in October 2001 decided to postpone by six months the judgement of whether to impose safeguard restrictions on towel imports. This decision was prolonged for another six months, until the Japanese government finally decided in October 2002 not to impose safeguard measures.

Extensive bilateral negotiations, which were widely covered in the media, were needed to solve the trade disputes. As noted by Yoshimatsu, domestic policy preferences played a large role in the position that Japanese government agencies and industries took. While METI adopted a more long-term perspective, taking into account the evolving influence of China on Japanese industries, MAFF acted from a purely domestic standpoint. Furthermore, while in the agricultural case, trading houses did not implement overt opposition activities, in the textile case, opposition from producers engaging in operations in China lobbied the Japanese government and public against import restrictions.

The trade disputes had a profound impact on the (organization of) economic relations between Japan and China, as well as on the Japanese industries themselves. In January 2002 China and Japan established a trade committee to promote the exchange of information on demand, the quality and constructive development of trade of farm products and to regulate

64) Yoshimatsu (2002), p. 401.

65) Yoshimatsu (2002), p. 384.

production volume and prices.⁶⁶ This indicated the desire of both governments to work towards better handling of trade disputes in the future.

Issues of collective memory were high on the political agenda throughout roughly the same period as the trade disputes. The row over history-related issues started with the approval of a new Japanese history textbook in April 2001. The Chinese immediately called on the Japanese government to ‘correct all errors in new history textbook’ and Chairman Li Peng of the National People’s Congress cancelled his visit to Japan in May 2001. Nevertheless, the Japanese government issued a statement in July 2001 that it could not satisfy China’s demands for textbook revision. Japanese Prime Minister Koizumi added to Chinese anger when he visited Yasukuni Shrine in August 2001, to which China responded with an official statement expressing ‘strong dissatisfaction’.

Both the trade and historical disputes moved in positive directions in autumn 2001. Koizumi expressed ‘heartfelt apology and condolences’ during his visit to China in October and the trade disputes were resolved in December 2001 following several bilateral talks. It is nevertheless hard to identify a direct linkage between the political and economic spheres. The timing of Koizumi’s visit to Yasukuni Shrine seems most illustrative in this respect: although it could have been foreseen that a visit would only antagonize the Chinese and interfere with trade negotiations, this did not keep the Japanese prime minister from visiting the shrine.

From 2003, against the background of a recovering Japanese economy, private industries — followed by the Japanese government — increasingly emphasized the business chances that China offered and the complementary relationship that the two countries were to build for the future.⁶⁷ In this more conducive environment, trade disputes no longer flared up to the extent that they were fought in public.⁶⁸ Political relations and public sentiment did not see a marked turn for the better, however, providing another indication that this case’s influence had been indirect in the interrelationship between the economic and historical issues.

66) Park (2002), p. 64.

67) Tanabe (2005), p. 72.

68) An important change is taking place, with Japanese companies increasingly tying up with Chinese companies and China becoming a market for Japanese companies. Competition between Japanese and (new) Chinese companies can be expected to grow simultaneously, however, thereby increasing the likelihood of future trade disputes over products that are higher up the quality ladder. Kinoshita (2007), p. 37, for example, notes that the bilateral relationship overall remains competitive and that Japanese companies have overcome long-term recession and maintain high levels of R&D.

Strategic Use of Japan's ODA to China

Official Development Aid has been a tool of economic diplomacy by definition. This is particularly so in the case of Japan, since — as Takamine, Arase and Berger have each convincingly argued — there are few tools available to Japanese diplomacy because of the renouncement of the use of military means.⁶⁹ Recalling the definition of economic diplomacy as diplomacy concerned with economic policy questions and diplomacy that employs economic resources in pursuit of a particular foreign policy objective, an intriguing question is whether ODA is mostly for economic purposes or primarily a foreign policy tool.

Japan became the world's largest bilateral donor in 1989 and was the top donor in dollar terms between 1991 and 2001. Despite the huge sums spent, however, the Japanese government failed to gain according international credit. The most important reason for this has been the perception that Japanese ODA, more than in other countries, has first and foremost been an expression of a mercantilist policy — that is, governed by commercial and trade interests. Indeed, Japan's aid consists largely of loan aid, is heavily focused on Asia and centres on modern industrial production-related sectors.⁷⁰ In calling attention to the economic function of ODA, more

69) Takamine (2006); Arase (2005); and Berger (1998).

70) As outlined in detail by Arase (2005), the vast majority (70-75 per cent) of aid is provided through bilateral programmes, consisting of three types: general grant aid; technical grant aid; and yen loans. Loans have taken up a large percentage compared to grants, which are

strategic issues that shape Japan's policy have long been too easily overlooked, however. National interests and foreign policy objectives have since the 1990s become an important focal point for the Japanese, all the more so following the implementation of ODA reforms starting in the mid-1990s.⁷¹ Against the background of domestic recession, an increasingly critical Japanese public with regard to development aid and shifting strategic interests, the ODA Charter was again revised in 2003. This revision confirmed the explicit focus on Japan's national interest, which was also evident in speeches by Japan's foreign minister in subsequent years.⁷²

Changing Sentiment towards ODA for China

Japan's development aid to China started in 1979, following the signing of the Treaty of Peace and Friendship between Japan and China in 1978. China received a substantial part of Japan's ODA in subsequent years, but as the Japanese-Chinese bilateral relationship became more competitive and strategic rivalry between the countries increased, Japan's aid policy towards China altered substantially. The announcement in 2005 of the decision to end loan aid to China may be regarded as the culmination of this trend. The vital question in this regard is whether this strategic change was a logical outcome of general trends in ODA policy, or whether other bilateral or regional interests — and collective memory specifically — played a role.

From the outset, Japanese assistance to China was embedded in issues of collective memory. With the 1952 Treaty of Peace, the Chinese had renounced the right of individuals to official war reparations from Japan, and with the normalization of relations in 1972, the PRC government had given up the right to war reparations.⁷³ In the absence of official reparations,

largely technical. The remaining part is given through multilateral international development institutions and agencies.

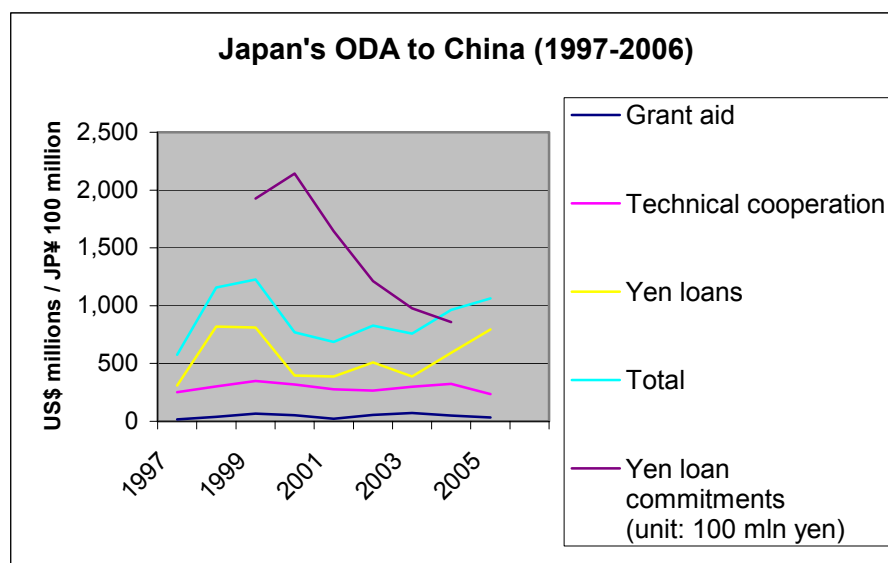
71) Illustrative is the 1998 final report of the Council on ODA reform, which puts forward three main goals for Japan's ODA: (1) humanitarian assistance; (2) tackling global issues; and (3) creating a harmonious environment of security. The full text of the Charter is available at: <http://210.163.22.165/policy/oda/reform/revision0308.pdf>. For further information, see Japan's Ministry of Foreign Affairs, *White Paper on Japan's ODA* (several years).

72) The changes of 1998 and 2003 were incorporated in the *Medium-Term ODA Policy Outlines* of 1999 and 2005, which delineate the basic policies based on the Charter's philosophy and principles. As an example of a speech in which explicit reference is made to the function of ODA for Japan's national interest, see Japan's Ministry of Foreign Affairs (2006), *The Hallmarks of Economic Diplomacy for Japan*, speech by Minister for Foreign Affairs Taro Aso at the Japan National Press Club, 8 March 2006.

73) Neither the PRC nor the Republic of China (ROC, or Taiwan) were invited to the San Francisco Peace Conference and neither were parties to the San Francisco Treaty, but the

Japanese assistance to China came to be regarded as an unofficial expression of reparations for wartime wrongdoings. Rather than mending ties between the two countries, however, the ambiguity surrounding the incentives and ways of provision and receipt of Japanese aid has been a source of friction between the two countries. The Chinese government has openly criticized the Japanese for using ODA as tool of economic diplomacy;⁷⁴ the Japanese, meanwhile, complained that the Chinese government did not properly convey the content and extent of assistance to its people. The Japanese accordingly became more critical of claims by the Chinese public that Japan had never paid anything for harm inflicted during the war. The Chinese government did not initially take this claim seriously, but took a more conciliatory approach from 2000. Premier Zhu then paid a ‘fence-mending visit’ to Japan, which was to overcome the political backlash of Jiang’s visit in 1998.⁷⁵

Figure 4



Source: Ministry of Foreign Affairs, *White Paper on ODA* (from 2001) and *Japan's ODA* (before 2001); and Japan Bank for International Cooperation, *Annual Report*

N.B. Statistics for ODA loan commitments are based on the Japanese fiscal year.

Figure 4 shows trends in Japan’s bilateral development aid to China between 1997 and 2006, with expenditures shown by the type of aid. Clearly, only a

ROC concluded a separate Treaty of Peace with Japan in 1952. Consequently, questions have been raised about the applicability of the Treaty of Peace to the PRC.

74) For more details, see Drifte (2006), p. 99.

75) Yahuda (2006), p. 167.

very limited portion of Japan's ODA to China consists of grant aid. The quantity of technical cooperation has been significantly larger and remained relatively stable. The greatest expenditures have consistently been for yen loans, although large fluctuations are seen throughout the years. As Drifte rightly points out, however, it may take from five to seven years for ODA commitments to be actually spent.⁷⁶ In order to get a sense of the sentiment of the time, one thus has to look at other figures. The graph shows that the quantity of yen loan commitments plunged after 2000 (note that the unit differs from that of the other variables). These numbers are indicative of domestic critical discussion over the necessity of Japanese loan aid to China in the new millennium, which grew as China gained economic strength and accumulated its own funds. Chinese failure to express gratitude properly for ODA received and, arguably, growing negative perceptions also played a role.

The mid-1990s saw two important shifts in Japan's ODA to China.⁷⁷ First, Japan started to use aid increasingly as a diplomatic weapon to counter disruptive behaviour by the Chinese government. This contrasted with Japan's earlier employment of development aid as a mostly positive tool — that is, to promote desired developments in China.⁷⁸ A first indication of this shift was the suspension and early lifting of aid to China following the 1989 Tiananmen Square incident. The decision to end sanctions, which had been imposed reluctantly and in response to international pressure in the first place, was much influenced by Japanese business and went against North American and European countries' policy.⁷⁹ As explained below, the mid-1990s saw many such examples.

Second, the policy-making power in the domestic setting underwent an important shift. In Japan, LDP parliamentarians increasingly prevailed over MOFA officials in ODA policy-making because of electoral and administrative reforms, coalition governments and a strengthened foreign policy-making capability. With politicians naturally more sensitive to public opinion than the foreign ministry, this meant that public perception and collective memory became a greater concern in policy-making about China. It is therefore useful to take a closer look at developments in ODA policy and public perceptions.

76) Drifte (2006), p. 108.

77) For details, see Takamine (2006).

78) See also Katada (2001).

79) Katada (2001), p. 39.

Japan from the early 1990s started to employ ODA more explicitly as a foreign policy tool towards China. Takamine (2006) argues that Japan imposed three sets of ODA sanctions between 1995 and 2000: the unilateral suspension of grant ODA to China in protest against nuclear tests (August 1995–March 1997); brief postponement of a special loan package by the LDP's Foreign Affairs Committee to protest against the increasing number of Chinese naval incursions in Japan's Exclusive Economic Zone (August–October 2000); and delay of the disbursement of the fourth yen loan package following China's military intimidation of Taiwan (March–December 1996). While the increased strategic use of ODA is noteworthy, it should, however, not be overestimated: suspension of grant ODA can also be seen as largely symbolic and political, since the amount of grant aid was in fact only very limited in the first place (as illustrated in Figure 4) and the other two sanctions also had limited practical impact.

More than the remarkable, diverging impact of these sanctions, the interesting observation here is the proposition that the first and third sanctions were implemented against the Japanese foreign ministry's wish and in response to pressure from the public and politicians.⁸⁰ This occurred following domestic changes and marked a significant shift from earlier times. In the new institutional setting, the role of public perceptions, short-term political interests and, thereby, collective memory came to play a greater role.

Following the shift to a more strategic employment of Japan's ODA to China from the mid-1990s, a profound change in Japan's aid policy to China took place in the new millennium. Public and political debate that started in 2000 culminated in the announcement in 2005 that loan aid to China would end from 2008. This fundamental redefinition of Japan's aid policy can be regarded as an outcome of the above-mentioned trend, in which politicians — and thereby indirectly the public — gained more influence over Japan's China policy. The change in sentiment is visible in ODA commitments, which peaked in 2000 and gradually declined afterwards.

The ending of loan aid to China had been under discussion since 2000, and a suggestion to revise ODA had been made by Keidanren in its 2001 statement on *Japan-China Relations in the 21st Century*.⁸¹ Nevertheless, the actual announcement in 2005 came rather abruptly, in the sense that it did not follow regular procedures for coming to such a decision. Little substantive research has been undertaken about the process leading towards the policy change, but Drifte argues that it was taken for political reasons: there was an

80) Takamine (2006), pp. 115-135.

81) Nippon Keidanren (2001). Paragraph II (2) states that 'It is perhaps time for us to review Japan's economic assistance policy towards China. Since foreign direct investment has increased in China, the need for ODA money should have eased to a certain extent. Under the circumstances, perhaps we can raise the effectiveness of ODA resources by focusing the ODA program on those areas that cannot be financed by private capital. Conservation and recovery of the habitat, education and vocational training are prime examples'.

‘opportunity’ for change following criticism of certain Chinese policies, deterioration of relations, China’s fast economic development, budgetary problems and general aid fatigue and China’s negative image in Japan.⁸² In other words, the government took advantage of the public sentiment that was partly induced by collective memory. In a period of transition in Japanese-Chinese relations, the upsurge in the emergence of historical issues and nationalism thus played a genuine role in this case study of economic diplomacy towards China.

82) Drifte (2006).

Japan's Regional Diplomacy

Assessment of Japan's economic diplomacy towards China would be incomplete without analysis of its indirect China policy. Indirect China policy refers to those aspects of Japan's foreign policy that do not directly address China but can to a certain extent be regarded as attempts to improve Japan's relative position to China. Changes in Japan's global and especially regional strategy provide valuable insight, as they provide an indication of the Japanese ruling elite's underlying perceptions of their giant neighbour. Doing justice to its comprehensive character, regional policy is — like ODA policy — seen in a longer perspective than the first two cases — that is, from the early 1990s.

Direct Engagement, Indirect Competition

Debates on Japan's foreign policy often revolve around its (perceived) reactivity and (lack of) strategy.⁸³ Importantly, indications of an independent policy have become increasingly evident from the early 1990s. This goes for strategic use of development aid to China, as seen above, as well as for Japan's regional policy. The launch of negotiations for the establishment of official relations with North Korea in 1991 and the boost in summit and high-level meetings with Vietnam from 1993 provide evidence of renewed regional engagement that diverged from US policy at the time. It was no coincidence that Japan took a more independent foreign policy stance on both fronts. Rather, by linking the two it becomes clear that the new diplomatic offensive towards North Korea was at least partly a means to undermine China's traditional stronghold in North Korea.

While attempting to weaken China's position in the region, Japan directly countered and engaged the Chinese with a more independent foreign policy.

83) For a useful overview of academic debate, see Potter and Sueo (2003).

The early lifting in 1991 of sanctions that were imposed after the Tiananmen Square incident of 1989 is symbolic of this. Bilateral relations between Japan and China improved from 1991 — in spite of the Tiananmen incident. The bilateral relationship of the early 1990s is even said to have been the best of China's relationships with developed countries, economically and politically.⁸⁴ Furthermore, the crisis that emerged following the nuclear testing and firing of ballistic missiles by China in 1995 and 1996 proved that Japan was ready at times not only to adopt a policy independent from the US and EU, but also to show its teeth to the Chinese. Despite going against business interests, the Japanese government independently suspended foreign aid to China. These years are generally seen to mark a low in Japanese-Chinese relations, symbolized by Japan's Defence White Paper, which in 1997 for the first time identified China as a potential threat.⁸⁵ Nevertheless, both sides recognized the importance of their relationship in terms of (bilateral) trade and regional peace and stability, and Japan's Prime Minister Hashimoto Ryutaro's visit to China in September 1997 marked the beginning of a new warming in relations.

While directly engaging China, the Japanese government pursued a foreign policy that indicated a further strengthening of the trend of engaging friendly and neighbouring countries. Three developments in 1997 are illustrative of this shift. First, in July 1997 Japan's Hashimoto government initiated its 'Eurasian and Silk Road diplomacy', which was about reshaping Japan's approach to Russia and strengthening political and economic relations with the new republics in Central Asia and the South Caucasus. This new diplomacy also stemmed from an underlying concern about the growing weight of China.⁸⁶ Japan's proposal for the establishment of an Asian Monetary Fund following the beginning of the financial crisis in 1997 is another example of Japan's new proactiveness. The proposal failed at the time because of US and Chinese opposition, but steps towards the same aim were effectively taken in subsequent years, albeit under a different name. Finally, revision of the US-Japan Security Guidelines in October 1997 deserves mentioning here, as it served to strengthen the bilateral alliance at the cost of relations with China.

Ten years later, Japan's Abe government at an early stage provided another clear example of direct engagement with China and simultaneous indirect competition. Prime Minister Abe clearly signalled his desire to relieve the burden that historical issues had placed on bilateral relations with China by visiting the country within two weeks of his Cabinet's inauguration. Soon thereafter, in November 2006, Abe introduced a 'value-oriented diplomacy' and his vision for an 'arc of freedom and prosperity'. Stretching from Eastern Europe to South-East Asia, encompassing also the Middle East, Central Asia

84) Interview with Professor T. Kinoshita of Waseda University, 2 April 2007.

85) Sato (2001), p. 5.

86) Drifte (2004), p. 283.

and the Caucasus, the arc effectively circumvents China. The emphasis on freedom and democracy in value-oriented diplomacy is another way by which the Japanese indirectly address China. Japan's Foreign Minister Aso's statement that the Abe government intended to cooperate with Asia-Pacific 'democracies' and was set to enhance its cooperation with ASEAN while promoting the expansion of 'democratic countries' and 'free societies' in the arc can be seen as illustrative of this.⁸⁷

Dual Approach to Regional Integration

Japan's policy to regional integration between 1997 and 2006 shows similar signs of a dual strategy. The government's official approach to regional integration largely involves economic diplomacy and can partly be seen as an instrument of indirect China policy. While economic diplomacy is recognizable mostly in integration through trade and investment agreements, the government's indirect China policy is clearest in regional integration through institutions.⁸⁸ In both fields, Japan's position is undermined by collective memory issues.

The financial crisis that started in 1997 triggered strong calls for 'Asians only' integration at the governmental level. The following years saw the traditional East Asian 'bottom-up' integration through business networks (regionalisation) complemented by a range of proposals for 'top-down' integration (regionalism) in the economic, as well as the political, security and cultural spheres. Such integration, which was facilitated by governments, added to tension between Japan and China as potential leaders in the region, as both promoted their vision of what regional integration should be like. Tension of complementarity and competitiveness similar to that in bilateral economic relations also surfaced at the regional level, and fuelled the 'noodle bowl' effect that emerged in trade agreements and institution-building.

Japan started to adopt a more strategic approach to economic partnership arrangements (EPAs) and free-trade agreements (FTAs) only from 2006. Japan's Foreign Minister Aso contended that Japan aims to get 'countries with common values to spread definitively out beyond Asia, with the idea of national interests firmly in mind'.⁸⁹ This somewhat ill-phrased assertion is another example of Japan's renewed assertiveness and attempt to undercut

87) '*Arc of Freedom and Prosperity: Japan's Expanding Horizons*', speech by Japan's Minister for Foreign Affairs Taro Aso, 30 November 2006, available at: <http://www.mofa.go.jp/announce/fm/aso/speech0611.html>.

88) For more detail on these two types of integration, see Heijmans (2007).

89) Japan's Minister for Foreign Affairs Taro Aso in 2006 devoted much of his speech to 'the hallmarks of economic diplomacy of Japan' on Japan's pursuit of EPAs and FTAs. See Japan's Ministry of Foreign Affairs (2006), *The Hallmarks of Economic Diplomacy for Japan*, speech at the Japan National Press Club, 8 March 2006, p. 6.

China. Since the new millennium Japan and China have been engaged in a race to forge economic ties with countries in the region. In 2000 China provided the real trigger for an upward spiral of FTAs in East Asia, by proposing a China-ASEAN FTA. Although preceded by South Korea's proposal to Japan for a bilateral agreement in 1998 and the signing of the first FTA between Japan and Singapore in 2002, China was the first player to enter the arena with a resolute strategy.⁹⁰ China's main incentive was to engage ASEAN, which had suffered from China's economic rise in an economic as well as a political sense. Indeed, the goodwill shown by China, as evidenced by accepting an agricultural trade deficit in the first phase of the FTA, was well received by ASEAN and gave a positive impulse to China's image in most countries.⁹¹ Japan's economic diplomacy was in this respect less successful and visionary, and appears to have always lagged one step behind.⁹²

Japan's approach to regional integration through institutions is even more closely related to its China policy. While both Japan and China continue to emphasize ASEAN's role as the 'driver' in the process, both countries attempt to strengthen their stronghold in the region by weakening the role and position of the other. The Chinese prefer the 'Asians only' ASEAN Plus Three (APT) process, while the Japanese promote the broader East Asia Summit. Obviously, China is well aware that it is better positioned in APT, where it has ASEAN on its side and most countries share memories of Japan's war and colonial past. This gives certain leverage, even if history for most ASEAN countries is not an omni-present factor as it is in Japanese-Chinese relations. The Japanese, on the other hand, realize that the East Asia Summit, which includes India, Australia and Russia, provides greater opportunities to contain China and downplay historical issues. This in turn explains Japan's emphasis on democratic values.

With regard to Japan's regional diplomacy, issues of history and collective memory are thus most evident in regional integration through institutions. Illustrative is the oft-cited claim that China opposes Japanese proposals for

90) In contrast, Peter Drysdale and Kenichi Ishigaki (2002) argue that Japan is at the centre of the shift in policy mood on regional trade arrangements.

91) Interview with a representative of *Nippon Keidanren*, 2 April 2007, Tokyo.

92) It was not until early 2006 that Japan said that it would make haste with negotiations for FTAs rather than pressing for (broader) EPAs. Furthermore, Japan started negotiating a free-trade deal with ASEAN as well as with the Gulf Cooperation Council (GCC) only after China had taken this step: the GCC started negotiations with China in April 2005 and with Japan in September 2006. Negotiations on economic agreements between Japan and China themselves are undertaken in a trilateral setting including South Korea. Only in January 2007 did the three countries agree to start negotiating an investment agreement, while the possibilities of a trilateral free-trade agreement are still under research. Great differences in the economies of Japan, China and South Korea are one important cause for the delay, but the deadlock of summits and subsequent strain on lower-level meetings certainly added to this.

regional integration ‘just because they come from Japan’.⁹³ In the field of trade agreements, it is mostly the structure of domestic party politics that causes Japan to lag behind, and the negative impact of the emergence of historical issues on high-level negotiations as a result of a downturn in bilateral relations at large. Takahara observes that ‘[M]any Japanese are annoyed that China, not Japan, is leading regional efforts in integration. Although Japan first changed its traditional trade policy of not seeking free-trade agreements [...] it is being left behind in promoting a regional framework’.⁹⁴ Such sentiment is likely to add to public concern about China’s rise, in turn undermining the conciliatory approach that businesses and, albeit less decisively, government are trying to take.

93) Meetings with various representatives of South-East Asian countries and Japanese officials in 2005 and 2006.

94) Takahara (2004), pp. 166-167.

Conclusion

Positioned at the intersection of politics and economics, of the international and the domestic, and of government and other actors, economic diplomacy is intrinsically a product of internal pressures. Collective memory profoundly shapes Japanese identity, thereby interfering directly and indirectly with Japan's economic diplomacy. Directly, historical issues related to the war in the Pacific and the colonial period shape the ideas and interests of actors in economic diplomacy. Indirectly, they constitute public perceptions and concerns, which in turn influence the behaviour of actors in government and the private sector. The domestic environment is thereby of particular importance to Japan's economic diplomacy.

This paper analysed the times when, and ways by which, collective memory intervened in Japan's economic diplomacy towards China throughout the last decade. Growing anxiety in periods of transition should be seen as the prime cause underlying all others, as domestic uncertainty induces renewed nationalism and adds to the likelihood of occurrences of historical issues. Indeed, China's rise at the time of a domestic downturn in Japan was such a transition period, as was China's entry to the WTO.

Collective memory intervenes in economic diplomacy at three levels. First, at the multilateral level, issues related to history have a vast influence on political relations. They have the potential to undermine generally positive economic relations, especially in periods of transition. The China factor in Japan's regional policy illustrates this point best. Furthermore, considering

China's 2001 WTO accession, it was no coincidence that in 2001 and 2002 trade disputes and rows over historical issues occurred simultaneously.

Second, at the bilateral level, intervention of collective memory in economic diplomacy occurs, particularly in generally predetermined as well as ongoing negotiations. The interruption of regular summit meetings in both capitals during most of Koizumi's tenure as Japanese prime minister is one such negative example. Other cases in point are the slowdown and stalling of economic negotiations on trade agreements — partly also a result of the discontinuation of summit meetings — and the security dialogue because of textbook and Yasukuni issues. Negotiations on specific economic projects, such as the rapid-transit railway in China, are further examples. While the emergence of historical issues negatively affects general relations, including economic issues, the trade dispute case study suggests that the argument that issues of collective memory are a major concern in economic negotiations is difficult to uphold. Koizumi's visit to Yasukuni Shrine at the height of the trade dispute provides proof of this. Explanation for the outbreak of disputes should rather be sought in the transition period in bilateral relations, which caused anxiety among Japanese producers.

Third, in the domestic sphere, changes in the political field have the potential to enhance disputes and developments over historical issues because of the influence of a relatively small but influential group of nationalists and politically powerful lobby groups, such as the Association of Bereaved Families. One such example was the 2001 LDP leadership election. The electoral pledge of all of the candidates to visit Yasukuni Shrine if they were elected ultimately had vast consequences on bilateral relations with China in general and economic diplomacy in particular. Domestic politicians' actions largely determine the extent to which economic diplomacy is influenced by collective memory issues. The impact of personal choices on economic diplomacy is clearest in the persons of Jiang, Koizumi and Nikai. Pro-China Minister Nikai helped to set the stage for the improvement of relations with China in early 2006, ahead of Abe coming to office. Japan's Prime Minister Koizumi, like Chinese Premier Jiang in 1998, prioritized personal issues related to collective memory over general political economic interests. In both cases, a vast group of people surrounding the leaders were generally keen to offset the negative impact of their emphasis on historical issues on bilateral relations. In the case of Jiang, this meant that after the summit the Chinese government tried to engage the Japanese politically and economically. The Yasukuni visits had become directly connected to the person of the prime minister and took a change of leadership to be solved. Also of importance at the domestic level is pressure from business representatives — individual and grouped in, for example, Keidanren. In response to the emergence of collective memory issues that were seen to have a negative influence on investment sentiment, oral and written appeals to government by actors involved in economic diplomacy towards China have been made at various times to build a constructive relationship.

The actions of politicians shape general perceptions, which may in turn lead to public pressure for a certain policy direction. As seen in ODA policy, domestic institutional organization and power relations can provide impediments or a stimulus for public pressure, originating in collective memory, to intervene in economic diplomacy. The decision in 2005 to end loan aid to China was facilitated by politicians' increased policy-making power and was pushed ahead at a time of negative political and public sentiment about China following the emergence of history-related issues in preceding years. These had effectively created an opportunity for politicians to bring about this fundamental change in ODA policy towards China without following regular procedures. Negative sentiment can in much the same way also create opportunities for certain industries to lobby for their case, as was seen in the trade disputes in 2001 and 2002. On the other hand, public pressure originating in collective memory may also interfere with politicians' goals in economic diplomacy. Such was the case when the economic groupings started to develop a more positive image of China from 2003. While government was generally ready to follow a 'China procurement strategy' (*tokushuron*) in economic diplomacy, public sentiment about China had become so negative that it was hard to counter.

Future Outlook

In order to make the most of Japan's economic diplomacy towards China, Japan needs to build a more comprehensive foreign policy. Economic diplomacy, by definition, includes various actors and agencies that need to cooperate in order for collective memory issues not to lead to unwarranted, undesirable results. While the Japanese government generally draws lessons and mends ties when historical issues have become political issues that threaten to harm economic relations, Japan overall does not appear to have a well thought-out policy and lacks a check-and-balance system that could limit the possible damaging effects of policy-makers' actions.

The Japanese government seems to be aware that as China's GDP is set to surpass that of Japan, the chances are big that Japan will gradually lose the attention of Asia and of the world.⁹⁵ Important choices thus have to be made on the role that Japan intends to play. Does it want to be a global or a regional actor? Japan's economy greatly recovered thanks to China's rapid growth, but does government presently not focus too much on China?⁹⁶ Answers to these questions are of importance for the development of a long-term policy on economic diplomacy. Collective memory has a role to play in Japan's dealings with East Asian countries at large, and is of particular importance in the

95) Kinoshita (2007), p. 70

96) These questions were raised during various interviews in Tokyo, March-April 2007.

present transitional period wherein Japan and China compete for regional leadership.

This research focused on Japan's economic diplomacy towards China, and inevitably its conclusions do not do full justice to China's policies and domestic environment. An important remaining question is what the implications will be for Japan of a stronger China that becomes increasingly outspoken and assertive in defending its national interest *vis-à-vis* the developed world. Chinese state television in early 2007 showed a documentary series about the rise of global powers, clearly aiming to engage its public in the tasks ahead with a sense of pride but also a spirit of practicality.⁹⁷ While this thinking can be traced back to Deng Xiaoping, the renewed impulse that the Chinese government is consciously giving at present signals greater attention by China to its role in the world at large and to a period of history other than its years of war with Japan. Detailed analysis of the consequences of this trend is bound to be one of the leading issues for future studies. Furthermore, as collective memory issues are generally sidestepped rather than solved, many simmering issues remain in the bilateral relationship. It is disquieting in this respect that while in the field of economic diplomacy influential business lobbies provide a counter-balance to government action that steers collective memory issues to centre stage, there are no such powerful groups pressing for improved relations in other fields, such as security.

The last decade has shown that domestic anxiety expressed in the emergence of collective memory has the potential to undermine seriously Japanese-Chinese relations, particularly in times of transition. Although at most times limited to the political sphere, the strong appeal to government by Japanese economic groupings and a growing number of academics to improve the bilateral relationship shows that collective memory undoubtedly also intervenes in economic relations at large. Although the improvement in bilateral relations that took place with the pragmatic, realist approach of the Abe government justified cautious optimism, it should be kept in mind that it was adopted for merely defensive reasons. Straightforward realism, rather than forged friendship, may be more powerful in generating mutual understanding and respect.

97) This was recalled by a MOFA representative in an interview, March 2007.

List of Abbreviations

APT	ASEAN Plus Three
ASEAN	Association of South-East Asian Nations
EPA	Economic Partnership Agreement
FDI	Foreign Direct Investment
FTA	Free-Trade Agreement
GDP	Gross Domestic Product
IDE-JETRO	Institute of Developing Economies (merged with JETRO in 1998)
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
LDP	Liberal Democratic Party
MAFF	Ministry of Agriculture, Forestry and Fisheries
METI	Ministry of Economy, Trade and Industry
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
NGO	Non-Governmental Organization
ODA	Official Development Aid
WTO	World Trade Organization

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