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CHINA YEAR BOOK 2015

China's Transition under Xi Jinping

Editor
Jagannath P. Panda

CHINA'S TRANSITION UNDER XI JINPING

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Jagannath P. Panda

Foreword by

Jayant Prasad

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INSTITUTE FOR DEFENCE STUDIES & ANALYSES
NEW DELHI



PENTAGON PRESS

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Editor: Jagannath P. Panda

First Published in 2016

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ISBN 978-81-8274-907-8

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Published by

PENTAGON PRESS

206, Peacock Lane, Shahpur Jat,

New Delhi-110049

Phones: 011-64706243, 26491568

Telefax: 011-26490600

email: rajan@pentagonpress.in

website: www.pentagonpress.in

In association with

Institute for Defence Studies and Analyses

No. 1, Development Enclave,

New Delhi-110010

Phone: +91-11-26717983

Website: www.idsa.in

Printed at Avantika Printers Private Limited.

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China-Japan Relations: Deciphering the 70th Anniversary Course

Titli Basu

2015 will be documented in history as an important year in China-Japan relations. The significance of 2015 for China and Japan is not limited to the 70th anniversary of the end of World War II and the aggressive historical baggage which fuels nationalism in East Asia—a region that continues to remain hostage to the scars inflicted by Imperial Japan. Beyond the diplomatic symbolism and exchanges, in 2015 the international community witnessed these two Asian powers engaging in fierce contest in the geo-economic and geo-political space. Even as the bilateral relations navigated through rough waters following the landmark Xi-Abe Summit in 2014 November, on the sidelines of APEC Summit, key developments in 2015 including the institutionalising of the Asian Infrastructure Investment Bank (AIIB), Japan's departure from post-war pacifism, and occurrences in the critical maritime space including the East and South China Seas, which prompted each country to adjust its political, security and strategic postures to cater to its respective national interests and regional ambitions. This paper is an attempt to capture the critical developments of 2015, examine some of the internal debates, and analyse their implications on the bilateral relations landscape.

Battle for Asian Infrastructure

2015 witnessed a race between China and Japan to boost investments in Asian infrastructure. The goal is to expand their regional influence by catering to the voracious infrastructure appetite of the emerging Asian economies. Japan and the U.S. intensified their campaign against several Chinese initiatives including the AIIB, arguing the case of dilution of well-established governance standards and attempting to challenge the Bretton Woods Institutions including the World

Bank (WB), the International Monetary Fund (IMF) and regional development banks like the Asian Development Bank (ADB). Since the U.S. refused to accommodate the views of emerging economies and the interests of China in the existing international financial institutions, Beijing opted to respond to the U.S. call of being a “responsible stakeholder”¹ and floated the AIIB to acquire greater influence in the governance of the global economy. Realising the impact of AIIB, Prime Minister Shinzo Abe in May instituted the *Partnership for Quality Infrastructure* during the 21st International Conference on the Future of Asia and underscored that Japan in cooperation with the ADB will deliver “high-quality and innovative” infrastructure to Asia and committed \$110 billion over five years,² representing a 30 per cent northward movement from the earlier funding.³ However, this \$110 billion commitment and a sustained campaign by the U.S. to discourage allies from joining China-led AIIB had little impact. Fifty Prospective Founding Member nations signed the China led AIIB’s Articles of Agreement in the Great Hall of the People in June⁴ with China as the largest shareholder with stake of 30.34 per cent and voting rights of 26.06 per cent.

Domestic debate over AIIB intensified in Japan⁵ following the diplomatic failure of the Obama administration⁶ to deter U.S. allies, including South Korea, Britain and Australia, from joining the AIIB. There is a school of thought that argues that Japan needs to think smartly about joining the AIIB, because it will give it the space to influence the governance structure from within, and further help Japan’s infrastructure business by retrieving information from within the AIIB.⁷ Japan has to be practical and grasp the reality that it has limited political clout to upset the new bank. Japanese scholars who have engaged in scenario building have weighed the prospects of Japan joining the AIIB, which will in turn decline China’s share.⁸

Japan and European countries may together have a greater share and if the U.S. also joins subsequently, then the Chinese clout will be further reduced. Furthermore, there are arguments that make the case regarding Japan’s obligation, as a major Asian country, to become a member, to ensure that the AIIB delivers on regional economic development.⁹ As the AIIB evolved and got institutionalised, ADB President Takehiko Nakao, on several occasions argued, that cooperation, including co-financing, rather than competition with the AIIB will enable a win-win formulation and facilitate the objective of infrastructure funding in Asia.¹⁰

The establishment of AIIB, underscored the need to review the reformation of the international financial order designed by the U.S. The emerging economies have long articulated their several concerns, including the necessity to expand international financial institutions’ loan capabilities and rationalise their operations. In this respect, the ADB promised to increase its lending capacity to \$20 billion; agreed to combine the Asian Development Fund and Ordinary Capital

Resources by 2017 to increase its annual lending and grant approvals; encourage public-private partnership investments by collaborating with governments and private banks; and reducing ADB's internal processing time in May 2015.¹¹ Besides, there is a school of thought in Japan which argues that the current international institutions need to allow more space to emerging countries in keeping with their growing economic influence and that the inability to do so will raise doubts about the relevance of these institutions.¹² Few have stressed the point of admitting the value of Chinese efforts and contributing from inside to shape its development and capitalise on its benefits for Japan instead of disapproving AIIB.¹³ Takehiko Nakao argues that governance reforms ought to be deliberated more earnestly in the backdrop of AIIB and the BRICS bank and that the failure of the present international organisations to embark on internal reforms will impact their influence in the global community. Nevertheless, he emphasised that while emerging economies are demanding more space, Japan's share in the capital of the World Bank and the IMF did not increase, despite its escalating economic influence in the 1970s and 80s.¹⁴ Several suggestions emerged, including the need for the U.S. to garner domestic support for IMF reforms and the ADB, to reassess its quota and voting rights.¹⁵

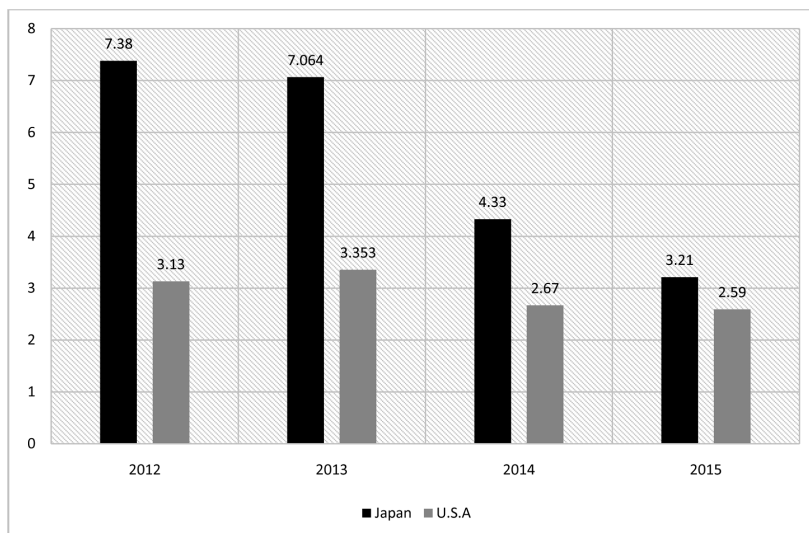
A 2009 ADB-ADB report *Infrastructure Seamless Asia* estimates that Asia needs to invest about \$8 trillion in the overall infrastructure between 2010 and 2020.¹⁶ 2015 saw an intense race between China and Japan for infrastructure projects such as the \$5bn high-speed rail project in Indonesia in September, the \$15bn *Shinkansen* project in India in December as well as the contest for the Singapore-Malaysia bullet train and so on. The competition between China and Japan was evident during the Association of South East Asian Nations (ASEAN) Summit in Kuala Lumpur. While China committed \$10 billion¹⁷ targeted at regional infrastructure improving connectivity along with \$564 million in grants to Cambodia, Laos, Myanmar and Vietnam, Japan agreed to ease loan related restrictions and provide quality infrastructure expertise.¹⁸

Interwoven Economies

Even as China and Japan are locked in intense competition to maximise their regional political and economic influence, they are tightly interwoven, economically. This is not just due to the huge bilateral trade and investment, but also because of the integrated supply chain networks and trade and investment flows to third nations, especially since a large amount of Japanese investment in South East Asia depends on China for assembly and value addition.¹⁹ While China is the largest trading partner of Japan, Japan is China's second largest single-country trading partner.²⁰ The 2014 *Survey Report on Overseas Business Operations by Japanese Manufacturing Companies* has recognised China as the third most

promising destination for business activities in the medium term, followed by India and Indonesia.²¹ Japanese investments have provided jobs, technology, and capital to China, and Japanese technological pre-eminence is very important for China. Japan's accumulated investment in China by May 2015 had touched \$100.4 billion.

Graph 1: Statistics of Japanese and U.S. FDI as per Actual Input of Foreign Capital in China (US\$ billion)

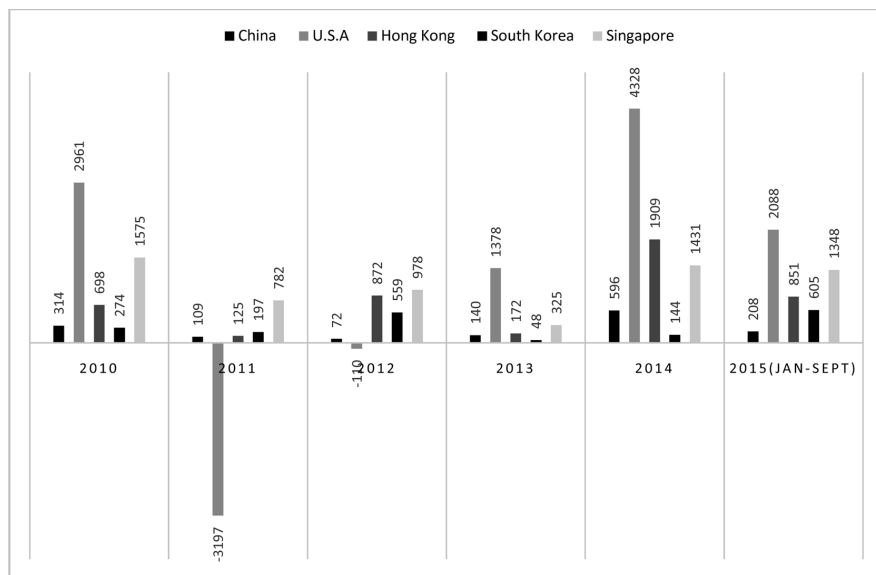


Source: Prepared by the author with the data from the Ministry of Commerce, People's Republic of China.²²

Nevertheless, several Japanese corporations halted production in China in 2015. For example, Panasonic halted production at its Chinese plant in Shandong Province²³ and the Citizen Watch Company shut down its Guangzhou factory. Since 2012, Japanese investment in China has seen a southward movement and escalating labour costs have upset the profitability.²⁴

The China-Japan bilateral trade in 2015 shrunk by 11.8 per cent to \$303.3 billion compared to the same period in 2014. JETRO data shows that exports reduced by 12.3 per cent to \$142.7 billion and imports declined 11.3 per cent to \$160.6 billion. Exports diminished owing to the ongoing depreciation of the yen. Exports of electronic equipment declined in spite of an increase in integrated circuits and communication devices. With regard to transportation equipment, passenger cars reduced from a 22.2 per cent increase in the preceding year to a 19.9 percent decline. General machinery plunged through all categories, excluding computers. With regard to imports, electronic equipment, which accounts for the biggest segment of imports, witnessed an 11.4% decline from a small

Graph 2: Japan's Inward FDI
(Balance of Payment Basis, Net and Flow) Unit: US\$ million

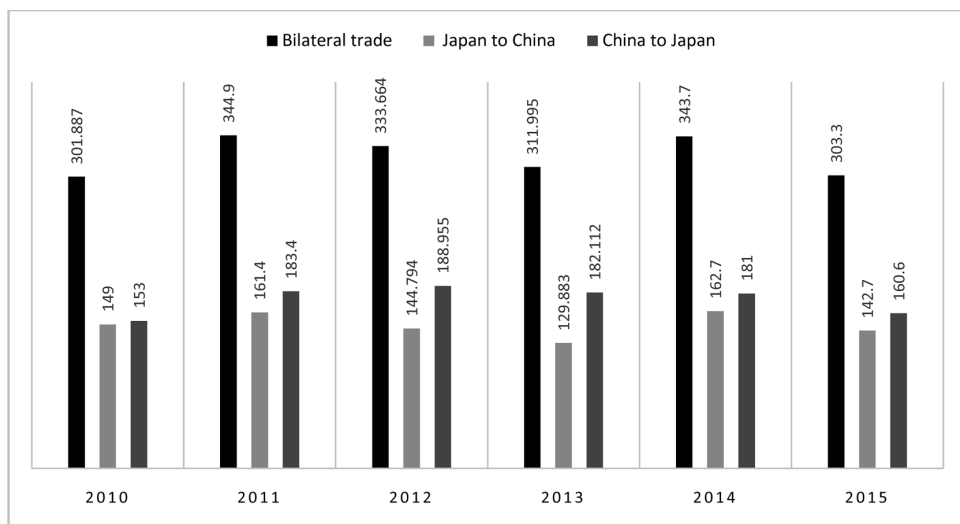


Source: Prepared by the author with data drawn from Japanese Trade and Investment Statistics, Japan External Trade Organisation (JETRO).²⁵

improvement in the preceding year, mostly owing to a drop in communication devices and photo-electric cells. Japan's trade deficit with China stands at \$17.9 billion. In a major development in August 2015, China's Central Bank devalued the Yuan which triggered serious concerns in Bank of Japan and for Abenomics as it was expected to hit exports and exert upward pressure on the Yen. Following the devaluation, Prime Minister Abe's advisor argued that devaluation of the Yuan could be counterbalanced by monetary policy easing.²⁶

The leadership of both countries have appealed for the economic rationale to prevail and encouraged the business community to strengthen the economic roots, based on the opportunities in each other's development. In June, Beijing hosted the fifth Japan-China financial dialogue after three years²⁸ where the Japanese Finance Minister Taro Aso and his Chinese counterpart Lou Jiwei, discussed the challenges of the international economy, tax and fiscal systems, the threats posed by unstable commodity prices and the economic policy spillover of the developed economies. Both countries acknowledged the need for economic restructuring and committed to strengthen communication and coordination in respect of macroeconomic policies and cooperation to deal with external risks and uncertainties. Both leaders stressed the need to reinforce cooperation in the

Graph 3: China-Japan Trade (unit: US\$ billion)



Source: Prepared by the author from the annual Japan External Trade Organisation Data 2010, 2011, 2012, 2013, 2014 and 2015.²⁷

G20 to push for the vigorous implementation of former agreements. They decided to endorse Asia's infrastructure development by coordinating with financial institutions on the basis of common interests.²⁹ The last Japan-China financial dialogue had taken place in April 2012, which was later suspended following the escalation of tensions in the bilateral relations. The next round of the Japan-China financial dialogue is scheduled to be hosted by Tokyo in 2016.³⁰ In November, Chinese Premier Li Keqiang called upon 200 Japanese business leaders affiliated with the Japan Business Federation, the Japan-China Association on Economy and Trade and the Japan Chamber of Commerce and Industry to help improve China-Japan relations which are navigating through difficult times. Premier Li Keqiang reiterated that China will continue making structural reforms and adjustments and that China is open to the idea of working with its Japanese counterparts for expanding production-capacity.³¹

China's Predicament with an Increasingly 'normal' Japan

The year 2015 commemorated the 70th anniversary of the end of World War II. Sentiments ran high in East Asia which continues to remain hostage to history. Regional perceptions regarding Japan's lack of sincerity in facing history squarely, continue to delay the reconciliation process. Two key developments in 2015 will shape the future trajectory of China-Japan relations in the coming years. First, the *Abe Statement* which was criticised by China and the Korean Peninsula; and

secondly, the new security legislation enacted in September by the Japanese Diet following an intense national debate and the revised US-Japan Security Guidelines. The Chinese leadership, including President Xi Jinping, have repeatedly been urging Japan to squarely face the historical issue 70 years after the War, but the *Abe Statement* of August 14 failed to measure up to the 1995 landmark *Murayama Statement*. Moreover, in the following month Japan enacted a new security legislation and amended a few existing ones enabling it to exercise the right to collective self-defence. This has certainly raised concerns in China which interprets Japanese Prime Minister Shinzo Abe's security vision, as a revisionist ambition. China has systematically articulated that Abe has engineered a China Threat Theory to justify these policy shifts to the electorate. This section proposes to analyse the implications of the above mentioned developments for China-Japan relations and what they entail for regional security.

The thorn of history: Seventy years after the war, one of the key variables shaping Japan's relations with the important regional powers is history. Even as Japan suffers from an apology fatigue, overcoming the trust deficit prevalent in the region, is a monumental challenge. In keeping with the convention of war anniversary statements, Prime Minister Abe delivered the much anticipated statement on August 14, 2015, a day marking Japan's acceptance of the Potsdam Declaration. As the statement did not include Abe's personal apology, the Chinese foreign ministry articulated discontentment stating that Japan should have offered an unambiguous message regarding the nature of the war of militarism and aggression and categorically accepted its responsibility for the war.³² The cabinet approved *Abe Statement* marked a departure from the 1995 *Murayama Statement*, made on the 50th anniversary and the 2005 Junichiro *Koizumi Statement* made on the 60th anniversary of the war.

The most significant departure Abe made from the *Murayama* and *Koizumi* statements, and which constituted the key essence of his message, was his articulation of uneasiness regarding subjecting the future generations of Japanese, "who have nothing to do with that war, be predestined to apologise".³³ This underscored the apology fatigue which is well established in Japanese discourse. The landmark 1995 *Murayama* apology which is considered to be "the first time a Japanese has clearly apologised for Japan's aggression against China"³⁴ has served as the yardstick to measure Abe's earnestness. Compared to the *Murayama Statement* that had been well received in China,³⁵ Prime Minister Abe's account is described as "revisionist-laden statement"³⁶ and lacking in sincerity.³⁷ To break away from the previous militarist aggression, China expected Abe's honest apology.³⁸ The Chinese media conducted systematic campaign prior to the announcement of the statement urging Prime Minister Abe to offer his heartfelt apology for war time atrocities. However, Abe was judged for his haste "to shut

out the past” by the *China Daily* which cautioned that “it would be naive to think the tensions paralysing East Asia will thus be gone”.³⁹ Following the statement, Executive Vice Foreign Minister, Zhang Yesui summoned the Japanese Ambassador Masato Kitera in Beijing to register China’s displeasure.

Prime Minister Abe had the responsibility of balancing the expectations of Japan’s neighbours and catering to his domestic constituency, particularly the influential right wing. It needs to be noted that the statement did reflect few attempts to pacify the neighbours when he referred to developments, for instance, recognising the kindness of those Chinese who took care of the few thousand Japanese children left behind after the war; underscored that the “position articulated by the previous cabinets will remain unshakable into the future”;⁴⁰ and mentioned about one of the most controversial subject of ‘comfort women’ in the “battlefields whose honour and dignity were severely injured”.⁴¹

Commemorating 70th anniversary of end of World War II on August 15, three cabinet ministers visited the controversial Yasukuni shrine in Tokyo. The Internal Affairs and Communications Minister, Sanae Takaichi; Chair of the National Public Safety Commission Eriko Yamatani; and Women’s Empowerment Minister Haruko Arimura⁴² visited the Yasukuni shrine, which honours Class-A World War II criminals, among the war dead. Besides, 161 lawmakers across political party affiliations, also reportedly visited the shrine.⁴³ While Prime Minister Shinzo Abe refrained from visiting the controversial Yasukuni shrine in person, he sent an offering. Region has severely criticised the development. The Chinese Foreign Ministry articulated its disappointment stating that this echoes the incorrect Japanese attitude towards history.⁴⁴

Meanwhile, on September 3, China observed *70th Anniversary of The Victory of the Chinese People’s War of Resistance against Japanese Aggression and The World Anti-Fascist War* where President Xi stressed that the victory of the Chinese People destroyed the scheme of Japan “to colonise and enslave China” and prevented a “national humiliation”.⁴⁵ Japanese scholars have argued that the military parade of September 3 was aimed at demonstrating President Xi Jinping’s complete control over both the military and the party in the midst of the anti-corruption campaign and attempts by nonconformist factions within the party to interfere in political decisions.⁴⁶ As China invested much energy in meticulously planning and ensuring the success of the event, 23 heads of state⁴⁷ including Russian President Vladimir Putin and South Korean President Park Geun-hye besides UN Secretary-General Ban Ki-moon attended the ceremony. Prime Minister Abe refrained from attending the celebrations citing the Diet⁴⁸ agenda and the then ongoing national debate on security bills.⁴⁹

Earlier in 2014, the National People’s Congress had designated September 3 and December 13 as the victory day of the Chinese people’s war of resistance

against Japanese aggression, and as a National Memorial Day respectively to commemorate those killed by Japanese aggressors during the Nanjing Massacre in the 1930s to demonstrate the strong Chinese resolve to oppose aggression.⁵⁰ Meanwhile, Nanjing Massacre documents including movies, pictures, memoirs and trials of war criminals, have been added to UNESCO Memory of the World Register in 2015.⁵¹ This triggered a heated response⁵² from Japan as the Chief Cabinet Secretary Yoshihide Suga argued for deliberating on discontinuing or cutting down financial contributions to UNESCO.⁵³ Besides, prior to the National Memorial Day, China published 15 out of the 2,784 files related to the war crimes investigation into Nanjing Massacre.⁵⁴

Shifts in Japanese post-war security policy and the Chinese dilemma: As China celebrated *The Victory of the Chinese People's War of Resistance against Japanese Aggression and the World Anti-Fascist War* on September 3, the Japanese Upper House enacted the contentious security legislation signifying a departure from post-war pacifism and undoing the restrictions on Self-Defence Forces on September 19. The intense national debate on Article 9 of the pacifist constitution following Prime Minister Abe's return to power in December 2012, the subsequent re-interpretation of the pacifist clause in the July 2014 Cabinet Decision and the ensuing debate especially in the Upper House of the Diet, culminated in the new security law enacted in September. A new permanent legislation was formulated and ten existing legislations were amended to enable a greater role for the SDF in overseas missions including limited collective self-defence, logistical support, asset protection and peacekeeping operations.⁵⁵ Japan in its Defence White Papers⁵⁶ and Diplomatic Blue books⁵⁷ has consistently argued the case for an increasingly threatening security situation surrounding Japan. The 2013 National Defence Programme Guidelines⁵⁸ underscored the threats emanating from an 'assertive' China and a 'destabilising' North Korea. Escalating tensions over territorial claims related to the Senkaku/Diaoyu Islands and the prevailing fear of entrapment in a section of the US strategic community, made Japan seriously weigh its policy alternatives. Besides, Chinese defence modernisation and issues related to transparency in defence budget continued to find space in Japanese Defence White Papers and policy articulations in 2015 and faced severe resistance from Chinese authorities.⁵⁹

A "normal" Japan is certainly not a pleasant development for China, especially when the territorial issues are far from being resolved. The Chinese defence ministry argued that this is essentially a Japanese shift from exclusive defence to active attack and will have a significant implication for the regional security environment.⁶⁰ China's White Paper on Military Strategy 2015 underscored the Japanese eagerness to move away from the post-war mechanism which sparks "grave concerns among other countries in the region".⁶¹ The Chinese Foreign

Ministry described this development as “unprecedented” and stressed that Japan’s military build-up and shift in security policy deviates from peaceful development. China, in its policy prescription to Japan, urged it to “act with discretion on military and security issues and do more to promote regional peace and stability, rather than the opposite”.⁶²

Prime Minister Abe is investing his energy in restoring international confidence in Japan and refurbishing Japan’s standing in the international community. This required undoing the limitations that were imposed on Japan in the post-war period, including the constitutional restrictions, especially the pacifist clause. It is however, premature to be alarmed about Japan’s shifting security posture, since its potential re-militarisation is not likely to have any similarities with Imperial Japan.

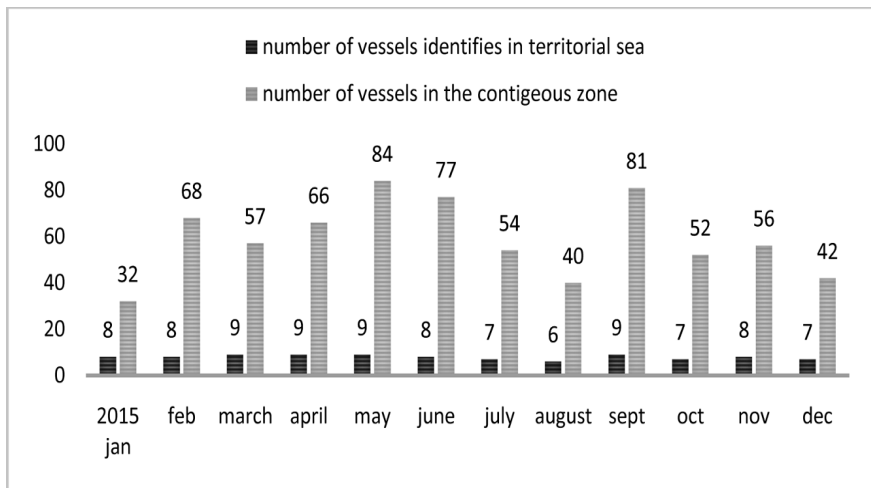
Turbulent Waves in the Maritime Canvas

East China Sea: Yokohama hosted the third high-level China-Japan consultation on marine affairs from January 21-23⁶³ where both countries agreed to expedite the establishment of Maritime and Air Liaison Mechanism involving the two defence ministries. Moreover, the Chinese Border Control Bureau and Japanese Coast Guard agreed to work together in managing maritime challenges including smuggling and human trafficking. Both the Chinese and Japanese coast guards concurred that a dialogue channel between the two headquarters must be opened. They decided to deepen cooperation in search and rescue, science and technology, and environment in accordance with the relevant international laws and discussed the establishment of a China-Japan Maritime Search and Rescue Agreement.⁶⁴ In March, Tokyo hosted the 13th round of the Japan-China Security Dialogue where both countries underscored the significance of early establishment of the Maritime and Aerial Communication Mechanism between defence authorities.⁶⁵ At the defence ministers working-level talks held in June in Beijing, the Japanese and Chinese defence ministries reportedly have arrived at an understanding of the technical difficulties involved in the maritime communication mechanism. Several other matters together with agreement on communicating in English in case of an crisis and setting up hotlines linking the chiefs of their naval and air forces⁶⁶ were considered. In December, Chinese and Japanese bureaucrats and defence and coast guard officers engaged in the next round of high level consultation in Xiamen (China) for early institutionalisation of the Maritime and Aerial Communication Mechanism among the defence officials of the two countries aimed at averting accidental clash at sea.⁶⁷

With regard to East China Sea issue, the Japanese Foreign Ministry in July presented a map together with a few photographs indicative of the positions of the Chinese offshore platforms connected to the gas field development. Yoshihide

Suga, the Japanese Chief Cabinet Secretary confirmed that thus far there were 16 structures, together with the 12 structures that were recognised in June 2013. While the structures are on China's side of the median line, the Japanese argue that it is a unilateral development given that the boundaries are yet to be demarcated and there are serious apprehensions that these offshore platforms can be altered to support military functions.⁶⁸ China and Japan also did not agree on the East China Sea boundary which has a 200-mile EEZ overlap.

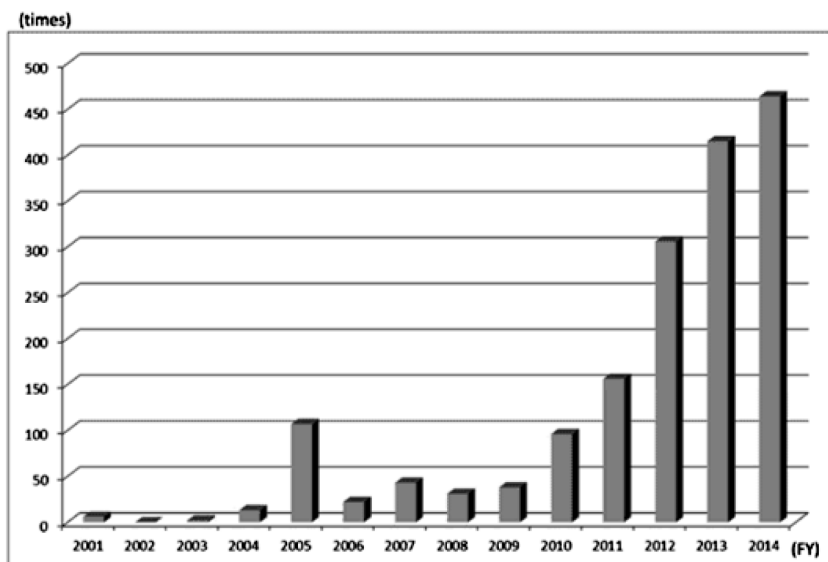
Graph 4: Alleged Violation of Japan's Contiguous Zone and Territorial Sea Surrounding the Senkaku Islands by Chinese Vessels



Source: Prepared by the author based on the data from Ministry of Foreign Affairs, Japan.⁶⁹

Meanwhile, in order to manage Chinese activities near the contested Senkaku/Diaoyu Islands in the East China Sea, Japan in March, increased tightened patrolling by sending six large Japan coast guard patrol vessels, in addition to the six existing patrol ships in the area. Besides, Japan also decided to position coastal observation personnel and strengthen the defence around the Yonaguni Island (Okinawa).⁷⁰ Furthermore, in defence of the south-western remote islands, Japan decided to station 500 Ground Self-Defence Forces (GSDF) in Ishigaki Island. Authorities are considering the option to set up a unit that can operate surface-to-air and surface-to-ship missiles during the next five-year medium-term defence expansion programme from 2019.⁷¹ Japanese statistics on scrambles through the third quarter of FY 2015 reflects that Air Self-Defence Forces (ASDF) fighter aircraft scrambled 373 times against Chinese jets.⁷²

Graph 5: Scrambles against Chinese Aircrafts



Source: MOD Japan website.⁷³

Diplomatic contest over South China Sea: While diplomatic symbolism was on display on the sidelines of several multilateral frameworks such as the Asian African summit, the UN Climate Change Conference, and the much awaited resumption of the sixth China-Japan-South Korea trilateral summit (first time since 2012), but China and Japan clashed over the developments in South China Sea at various regional forums including the East Asia and ASEAN summits in 2015. China has strongly argued that Japan is not a party to the South China Sea issue and that Japan is intentionally interfering in the issue which has “driven a wedge among regional countries” and severely dented the bilateral political and security trust and hindered the spirit of improving China-Japan relations.⁷⁴ As Prime Minister Abe weighed the pros and cons of joint patrols with the U.S. in the South China Sea and the strengthening of Japan’s strategic partnership with key stakeholders in the dispute, he smartly utilised Japan’s space in several international and regional meetings to argue his position on the developments in South China Sea.

At the 18th Japan-ASEAN summit meeting, Abe articulated his serious concerns and stressed that the reclamation activities of China in the South China Sea were unilateral actions which can escalate regional tensions.⁷⁵ Moreover, at the 10th East Asia summit meeting, Prime Minister Abe underscored the importance of freedom of navigation and over flights at sea and further stressed that China must demonstrate its claims of not militarising the outposts in the

South China Sea by tangible actions. Japan reiterated its support for the Philippines decision to seek arbitration for settling maritime disputes in a peaceful manner.⁷⁶ Further, at the G7, Japan stressed that China's unilateral actions are designed to alter the status quo in the South China Sea and "must not be overlooked".⁷⁷

Diplomatic Parleys in the Trilateral Framework

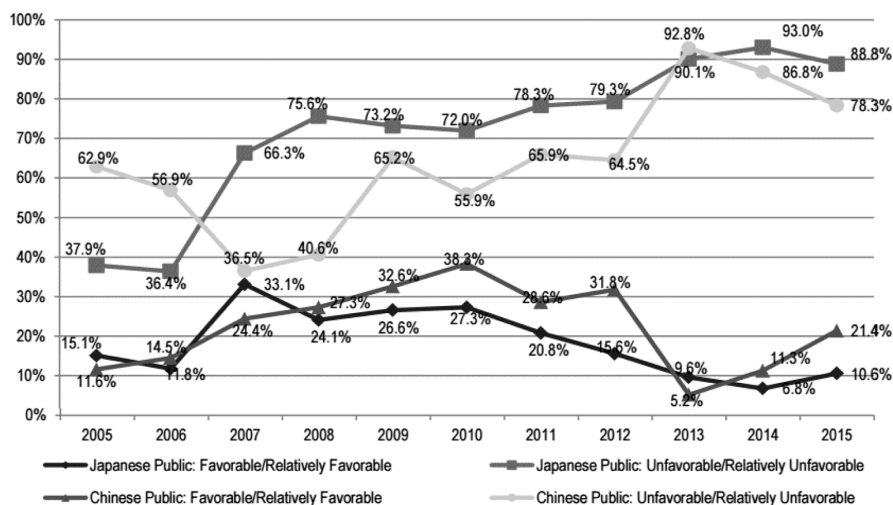
One event that captured regional attention in 2015 was the much awaited resumption of the sixth trilateral China-Japan-South Korea summit in November in Seoul after a three year hiatus. Premier Li Keqiang met with Japanese Prime Minister Shinzo Abe and South Korean President Park Geun-hye and following the summit meeting several joint statements were issued including on: peace and cooperation in North East Asia; environmental cooperation; economy and trade cooperation; customs cooperation on trade facilitation; agricultural cooperation; and education cooperation.⁷⁸ Earlier in March, the seventh trilateral foreign ministers meeting was hosted in Seoul after nearly three years.⁷⁹ The joint declaration underscored the importance of repairing bilateral relations which "constitute an important foundation for trilateral cooperation, and that the deepening of trilateral cooperation, in turn, contributes to each bilateral relations and to the peace, stability, and prosperity of the Northeast Asian region".⁸⁰ Scholars argued that the resumption of the summits involving these three leaders is an accomplishment in itself, since none of the problems that had originally interrupted this annual meeting, have been resolved.⁸¹

Popular Perception

In keeping with tradition, the annual public opinion survey conducted jointly by China International Publishing Group and the Japanese Genron NPO was published in October. The top three reasons for the Japanese to harbour unfavourable attitude towards China are: first, criticism over history issues; secondly, China's selfish conduct in securing resources, energy and food; and thirdly, Chinese activities are incompatible with international system. The survey reflects that the top reason for Chinese hostility towards Japan are: first, the lack of an appropriate apology and remorse over the history of invasion and second, the buying of the Diaoyu Islands.

Despite the heated politics and largely hostile sentiments toward each other, it is interesting to note that the numbers of Chinese visitors to Japan saw a northward movement in 2015 compared to previous years. Despite the heightened nationalist sentiments on the 70th anniversary of the War, data reflects that a weaker yen and the hassle-free visa regime for Chinese nationals, which became effective from January encouraged Chinese visitors to opt for Japan. The Chinese media reported that during the Golden Week (October 1-7), Chinese visitors

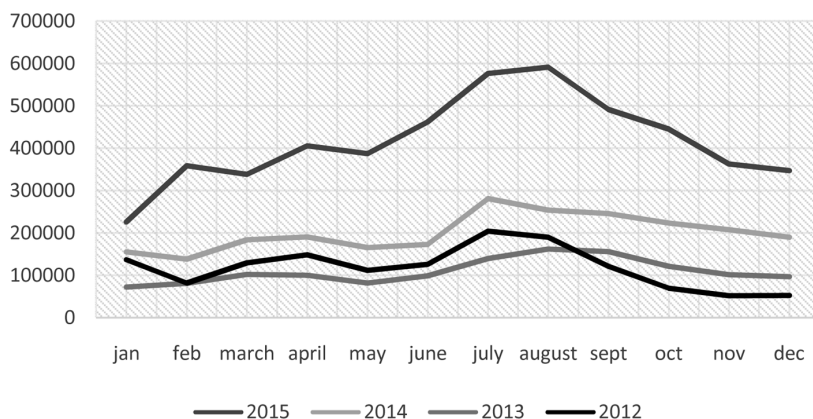
Graph 6: China and Japan's Perception of each other



Source: 11th Japan-China Joint Opinion Poll Analysis Report on the Comparative Data 2015.⁸²

spent \$ 830 million, while shopping in Japanese malls, and the most popular items were luxury goods, household products, and medicines. Medical tourism in Japan is also flourishing.⁸³

Graph 7: Chinese Visitors to Japan



Source: Prepared by the author following the data drawn from Japan National Tourism Organisation⁸⁴

Summing Up

China's emergence as a major power in international politics is altering the existing regional balance of power in Asia. Japan is essentially reacting to the asymmetrical

power politics and Abe argues that “Japan is not, and will never be, a Tier-two country”.⁸⁵ The contest for expanding regional influence between these two Asian powers will continue in the coming years. In few areas, constructive competition between Asia’s two biggest economies is welcome, as for instance, in the infrastructure sector because it will ultimately serve the larger objective of enabling the emerging economies of Asia to fuel their national growth engines and boost Asia’s overall ability to compete in the global economy. Moreover, as China attempts to move up the manufacturing value chain, innovation and technology will be the key determinants, and this is where Japanese technological proficiency can play a crucial role.

The year 2015 witnessed a fair degree of high level interaction between the two countries but one of the biggest challenges in China-Japan relations is the trust-deficit. The future depends on the resolve of the leadership to demonstrate pragmatism, and move beyond the narrow compulsions of their domestic constituencies and focus on creating space for peaceful dialogue and invest in confidence building measures. Japan is headed for Upper House election in July 2016, the outcome of which may further shape the debate on Constitutional revision. While contentious questions like the Senkaku/Diaoyu Islands, the history issue and the intense nationalism will continue to keep the political relations volatile, but both Japan and China, in 2016, will do well to take small, yet sincere steps, to mend ties within the bilateral, trilateral, regional and international frameworks. One such opportunity will present itself when Japan hosts the trilateral Japan-China-South Korea summit in May, where each party can reinforce the resilience in their relationship.

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ISBN 978-81-8274-907-8



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