



## CONNECTING THE DOTS: JAPAN'S STRATEGY TO ENSURE SECURITY AND ECONOMIC GROWTH

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During the final decade of the Cold War, China, Japan, and the United States formed a pseudo alliance against the Soviet Union. Completing the rapprochement following the dramatic visit to Beijing by U.S. President Richard Nixon in 1972, China's internal domestic economic reform to introduce capitalistic incentives since the end of the 1970s was welcomed by Japan and the United States, which gave a boost to China's effort through infrastructure development aid, direct investment, and market access. During the first decade of the post-Cold War period, China mostly continued to enjoy economic engagement under amicable relations with its neighbors. But the seeds of growing disputes over various security issues were already visible by the mid-1990s; over the Taiwan presidential election in 1996; allegation of Chinese nuclear spying in the United States; and the Chinese declaration of the Territorial Water Law in 1992 inclusive of the Japanese-controlled Senkaku Islands. The growing security rivalry between China on one hand and the United States and Japan on the other, however, has coexisted with the momentum of their growing economic engagement with China. In the case of Japan, rapid cooling of political ties with China since the mid-2000s did not alter the growing economic interdependence. Appointment by the Democratic Party of Japan (DPJ) government in 2010 of the Japanese ambassador to China Uichiro Niwa, whose background was in Japan's major trading firm, Itochu & Co., symbolized the government's hope in "liberal peace" that the growing economic interdependence will moderate the security rivalry between Japan and China. Niwa's remark on the Senkaku Island dispute defying the official Japanese government line that "there is no dispute" eventually led to his replacement, however. Prime Minister Yoshihiko Noda's decision in 2012 to nationalize the Senkaku Islands by purchasing three islands from their private owner in order to more effectively control landing attempts by both Chinese and Japanese protestors unleashed massive Chinese protests, and riot activities against Japanese business sites in China

**Table 1: Japanese Direct Investments in Asia**

	1995	2000	2005	2010	2011	2012	2013	2014
Asia Total	8,447	2,132	16,188	22,131	39,492	33,477	40,470	35,390
China	3,183	934	6,575	7,252	12,649	13,479	9,104	6,741
Asia NIES Total	1,771	△ 686	4,902	6,902	9,302	8,043	8,955	13,942
Hong Kong	334	△ 132	1,782	2,085	1,509	2,362	1,785	2,738
Taiwan	414	△ 107	828	△ 113	862	119	330	470
Korea	347	1,074	1,736	1,085	2,439	3,996	3,296	3,153
Singapore	676	△ 1,521	557	3,845	4,492	1,566	3,545	7,580
ASEAN4 Total	3,312	1,684	4,276	4,310	13,204	6,397	16,587	11,031
Thailand	935	593	2,125	2,248	7,133	547	10,174	5,175
Indonesia	946	585	1,185	490	3,611	3,810	3,907	4,407
Malaysia	371	△ 4	524	1,058	1,441	1,308	1,265	972
Philippines	1,061	510	442	514	1,019	731	1,242	478
Vietnam	n.a.	39	154	748	1,859	2,570	3,266	1,348
India	n.a.	175	266	2,864	2,326	2,802	2,155	1,811

△ net divestment

In one million U.S. Dollars

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symbolized the dashed hope of the liberal peace. In this analysis, two trends of regional economic integration and enhancement of the U.S.-Japan military alliance and their increasing synergy will be discussed. Upon such analysis, two scenarios about the Sino-Japanese relations will be presented.

### Regional Economic Integration

The first major trend is regional economic integration in East Asia, in which the growth of Sino-Japanese ties via investments and trade are the leading force. China's rapid economic growth has in significant part been fuelled by Japanese investments, and in turn the growing Chinese market attracted more Japanese investments. The booming economic relations lasted through the 2000s, despite the cooling political relations over the disputes over the East China Sea gas fields and the issues of disagreeing war-memories and historical interpretations and representations. In the 2010s, the cooling political relations over the Senkaku Island and maritime boundary disputes in the East China Sea started to negatively affect the economic relations.

Japan's willingness to shift away from China and reduce its proportional (if not absolute) economic dependence on China has been visible in recent years. The anti-Japanese riots of 2012 in major Chinese cities in response to the Japanese government decision to nationalize three of the Senkaku Islands led to revision of the previously held optimism that politics and economics could be separated.

However, the cooling of the economic relations is a cumulative result of multiple constraints between the two countries, not only entangled in a security rivalry, but also engaged in differing modes of domestic political economy and external economic strategy.

Japan had invested in China's infrastructure development through concessionary long-term loans, but this type of official development assistance to China was terminated in 2008, due both to China's entry into the middle-income category of countries and to the worsening bilateral political relations over the maritime disputes in the East China Sea since the mid-2000s. Even with development assistance support, major Japanese manufacturers largely remained on the cautious side. The large overall volume of Japanese

investments in China has consisted of a large number of relatively smaller individual investment entities instead.<sup>1</sup> Therefore, potential of China as an investment destination for Japanese firms has not been fully met.

China's nationalist economic policy is also an obstacle to foreign investments. In its effort to improve investment environment in China, Japan together with South Korea have negotiated a trilateral investment agreement with China. Japan's preference to extend national treatment to all Japanese investments in all sectors met China's opposition,<sup>2</sup> and the compromised agreement in 2013 only extend such equality between the indigenous and foreign firms in limited sectors, in which foreign entries are approved in the first place.

Japan has shifted concessionary overseas development assistance (ODA) loans to India, Vietnam, and Indonesia. Japan signed an economic partnership agreement (which includes a free trade agreement) with India in 2011, while trilateral free trade negotiation among Japan, China, and South Korea has stagnated to this day. Although Japan's trade with India is still much smaller than with China, Japan-India trade has been growing fast in absolute volume.

Japan's decision not to join the founding members of the Chinese-led Asia Infrastructure Investment Bank (AIIB) is also indicative of their growing geopolitical tension and differing economic philosophies. The momentum of East Asian financial cooperation since the Asian economic crisis of the 1997-8 period has clearly lost steam, as Japan may opt to defending its dominant position in the Asian Development Bank instead through a capital increase.<sup>3</sup> The shared concern between the United States and Japan about lack of transparency and clear guidelines in decision making in the AIIB is another reason of Japan's decision. While China will likely use its predominant influence in AIIB to strategically finance regional infrastructure projects to suit the country's "One Belt One Road (OBOR)" or the "Silk Road" project,<sup>4</sup> Japan's bilateral and multilateral aid policy has broadened its previously economic focus into a more comprehensive strategic one.

The second major trend has been the enhancement of the U.S.-Japan military alliance. China's rapid and

continuous naval buildup during the past two decades and its increasingly assertive maritime claims in the East China Sea and South China Sea have moved the two allies closer in their joint efforts to deter China.

Japan's motivations to do more in alliance cooperation were in short driven by its fear of abandonment in the post-Cold War security environment, but most specifically by the perceived lack of U.S. defense commitment to regional security in Asia during the George W. Bush and Barack Obama administrations.<sup>5</sup> Notwithstanding the rhetorical denial, the Bush administration of preoccupation with the war on terrorism in the Middle East and Central Asia, and application of this framework to security policy elsewhere (including East Asia) created an image of U.S. disengagement from security management as seen by the Japanese in more traditional military sense. The Obama administration's rebalance to Asia strategy brought the renewed U.S. attention to Asia, but one of the strategy's subcomponents to engage China has increasingly revealed a built-in contradiction with the strategy's emphasis on U.S. allies<sup>6</sup> when China's aggressive military maneuver in the maritime domains threatened U.S. allies.

Prime Minister Shinzo Abe has emphasized Japan's international responsibility to play a global security role in his "positive peace" rhetoric. The country's drive for a permanent seat in the UN Security Council failed in 2005 not only because of China's opposition, but also because of the U.S. dislike of the proposed 21-member UNSC format. The Obama administration's embrace of multilateralism has opened a new window of opportunity for Japan to re-launch its campaign, and Japan lodged a new UNSC expansion proposal to the UN in May 2015.<sup>7</sup> Globalizing U.S.-Japan security cooperation not only aims at anchoring U.S. commitment to Japan's defense, but also enhancing Japan's diplomatic voice in security affairs. To the United States, a militarily more reliable Japan will enhance its diplo-military effort to engage and discipline China into a "responsible stakeholder."

It is, however, premature to assume that Japan's security cooperation with the United States will keep its current momentum and will increasingly encompass deterring China. Abe's effort to amend various defense-related laws to enable defense cooperation with the United States

has met increasing domestic opposition, as doing so without amending the constitution is increasingly viewed as “unconstitutional.”<sup>8</sup> His ability to maintain the currently centralized leadership within the ruling Liberal Democratic Party is subject to change.

Abe's emphasis on the global responsibility of Japan is reflective of his desire not to unnecessarily antagonize China to the discomfort of the United States as well. The U.S. strategy still seeks strategic cooperation with China, and this need is most manifested in discussions of the security problems surrounding North Korea. Japan's effort not to link upgrading of the security cooperation with the United States with the increasing perception of Chinese threats is clearly visible in Abe's comment that the ongoing legislation effort has demining operations in the Strait of Holmes specifically in scope and that the South China Sea is not intended for such an activity.<sup>9</sup> This kind of limited cooperation is more realistic, given that Japan's limited naval assets were built during the Cold War for its choke-point security strategy. The Japanese government decision in early July 2015 to extend the anti-piracy operation of the Maritime Self-Defense Force in the Sea of Aden by another year<sup>10</sup> is consistent with this choke-point cooperation.

Given these two trends on the Japanese side, the outlook for Sino-Japanese relations revolves around the implications of the slowing economic growth in China. China has emphasized domestic redistribution of the fruits of its rapid economic growth, in order to cope with the growing domestic dissent about the regional gap, income disparity, and official corruptions. If the Communist government manages the discontents of the people well, Chinese external policy in the region will proceed with a degree of assertiveness, but more in rhetoric than material and tangible terms. Naval and maritime buildup will continue, but China will somewhat refrain from actively expanding enforcement of its assertive maritime claims. China's announced air defense identification zone (ADIZ) over the East China Sea was immediately challenged by the U.S. flying of two unarmed B-52 bombers through the zone, and China's enforcement capability appears limited,<sup>11</sup> despite some signs of willingness to enhance such capability.<sup>12</sup> In this scenario, U.S.-Japan responses to the Chinese actions will also be limited.

On the other hand, failure by the Communist government to calm its domestic discontents will lead to more assertive

external policy by China. The need to divert challenges against its legitimacy in an event of domestic instability, the Communist government will likely resort to creating an enemy and prop up nationalism through increasing provocations in the East China Sea and the South China Sea. Such Chinese behavior will raise the risk of accidental war in East Asia and prompt the United States and Japan to broaden the scope of their security cooperation and make it more explicitly applicable to East Asia. The bilateral alliance will also invite closer cooperation with other regional partners including Australia, India, and selective Southeast Asian countries like Vietnam and the Philippines, shifting the balance in their China policy between engagement and containment in the latter's direction. Japan's joint search-and-rescue exercise with the Philippines (using a P3-C anti-submarine warfare plane) in the South China Sea in June 2015, amid the reef reclamation and airfield construction in the South China Sea by China,<sup>13</sup> is the most recent example of such a move, following earlier decisions to provide patrol boats to the Philippines<sup>14</sup> and Vietnam.

## Conclusion

Liberal optimism that economic interdependence eases security rivalry is increasingly under reexamination as the rising maritime disputes in East Asia reveal their geopolitical characters. Japan and China have a common concern about the safety of their shared maritime shipping routes through the South China Sea, Malacca Strait, and the Indian Ocean, but their preferred means of securing the sealanes differ. China challenges the existing combined naval dominance of the United States and Japan in the Western Pacific and seeks accesses to the Indian Ocean region. Their rivalry, if unchecked, will likely develop into a greater alignment involving India, Australia, and some Southeast Asian countries. Whether the rivalry can be tamed largely depends on China's ability to maintain its social stability through the period of slowing economic growth.

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## NOTES

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