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Graduated from the School of Political Science and Economics, Waseda University in 1969. Joined the *Nihon Keizai Shimbun* that same year, and after serving in roles such as reporter in the economics section held successive posts as a correspondent in Brussels, head of the New York branch office, executive director of the editorial board, special executive director, and columnist. Has held his current post since 2012. His major works have included *A Leaderless World*, *A Primer to the Japanese Economy*, and *Reciprocity: The Political Dynamics of the Yen and Dollar*.

Japan's Strategy in Taking on the China Risks

The two China risks pose major destabilizing factors for the Asia-Pacific region, which is one of the world's growth centers. The first is Chinese military expansion and its incursions into ocean areas, for which the split between China and Japan surrounding the Senkaku Islands serves as evidence. The second is the changing tone of the Chinese economy, which has continued to experience rapid growth. Herein there lies the contradiction of changing over to a market economy via state capitalism, which is suffused with the structural problem of the aging of its population. The economic cold war between Japan and China that began last fall is also aggravating the situation. Japan's diplomatic and economic strategy is to directly take on these two China risks. It is time for Japan to overcome the Senkaku issue and work out a comprehensive strategy with a global outlook without falling into narrow-minded nationalism.

The Two Risks Are Advancing

For the territorial dispute the United States, which always adopts a neutral stance, has begun to exert a powerful vigilance against the hard-line stance China has adopted concerning the Senkaku Islands. The US' annual report concerning China's military strength (2013 edition) offered stark criticism that China's establishment of straight baseline claims around the Senkaku Islands so that it would be regarded as Chinese territory had been done "improperly" and was "inconsistent with international law." This served to reign in China's movements owing to the sense of danger that China's acts of provocation in the area around the Senkaku Islands could potentially touch off an accidental conflict.

As for China's incursions into ocean areas, in addition to its incursions southward that have brought about friction with Vietnam, the Philippines, and other countries in the Association of Southeast Asian Nations (ASEAN), it has also been expanding its incursions eastwards in the vicinity around the Senkakus.

An old aircraft carrier that had been made in Ukraine was spotted at Dalian Port in China two years ago, and since then they have been working to refurbish it and put it into practical use. Its arms buildup at a pace that outstrips its rapid economic growth is a vivid demonstration of China's path towards military expansion. Due to the decline in the charisma of China's leadership class, which reached its peak with Deng Xiaoping in particular, they must now give consideration to the will of the army in order to maintain their political power, for which reason alone the influence of its army is growing. The system under Xi Jinping, which has only just gotten underway, has demonstrated that this tendency is growing stronger.

One other China risk that is on par with its incursions into ocean areas is the changing tone of the Chinese economy. The slowing of its growth down from double digits to around the 7% mark is perhaps due to the unavoidable maturation of its economy, yet income inequality is expanding and the country has inland areas which have yet to enjoy the dividends of this growth. This has the potential to pose a hindrance to China's governance.

From the outset China harbors the contradiction of how far it can move forward with converting over to a market economy while still retaining state capitalism. The country is beset by major structural problems such as its underdeveloped social security system, on top of which it does not have a functional means of redistributing wealth through its tax system. In the midst of all this it is also moving towards becoming an aging society. These factors have the potential to act as a further drag on growth. There are also fears that public discontent could become amplified via the dot-com revolution.

There is even the danger of China stirring up nationalism over issues like the Senkakus and directing this displeasure externally in order to cover up the internal contradictions in the changing tone of the Chinese economy. If they are not careful in this it could potentially become entangled with the two China risks.

The economic cold war between Japan and China concerning the Senkaku issue cannot be ignored. This contraction of economic activity between the world's second and third largest economic powers will not only deliver a blow to the economies of both Japan and China, but also poses a major risk factor for the world economy. At this point economic transactions between Japan and China have begun to be restored and the extent to which sales of Japanese cars within China have fallen off has been reduced, but they have not yet been able to break out of this economic cold war.

Direct Dialogue Instead of a Tightening Net

How should Japan respond to the two China risks? Naturally it should continue to assert its claim that the Senkaku Islands are part of Japan's inherent national territory, but ignoring the cooling of relations between Japan and China runs the risk of undermining the prosperity and stability of the Asia-Pacific region. The worst-case scenario would be a further worsening of the situation due to a back-and-forth exchange of narrow-minded nationalism. Careless remarks and conduct by politicians could potentially aggravate the problem. This point is also one that worries the United States, as an ally of Japan. President Obama in particular regards the United States as an Asia-Pacific nation, and as such the cooling of relations between Japan and China must give him headaches.

It will be important to persistently engage in direct dialogues with China through a broad-ranging coalition. Efforts towards these direct dialogues are all the more important because relations are cooling off.

Unfortunately, it appears as if Prime Minister Shinzo Abe's diplomacy is inclined more towards placing a tightening net around China than holding direct dialogues with it. The prime minister has been active on the diplomatic front, especially for those countries such as ASEAN, India, Russia and four Middle Eastern countries, but not for China. Just saying that "Japan's door is always open" could not be described as an effort at persistent direct dialogue with it.

Incidents like the resolution to dismiss Chairwoman Yoriko Kawaguchi of the Upper House Environment Committee (a former Foreign Minister and Director-General of the Environment Agency) just for extending the schedule of her stay by one day to hold talks with former Foreign Minister Yang of China, who is now a member of the State Council, when she visited China expose the "provincial" political stylings of Japan's National Diet.

At summit meetings between Japan, China, and South Korea there were no consultations between finance ministers, only a meeting of environmental ministers was held, at which measures to combat cross-border pollution of pollutants like fine particulate matter (PM2.5) were agreed upon. Environmental issues could potentially serve as an opening for the resumption of dialogues, and in the sense that Kawaguchi would have been a key person in this the resolution for her dismissal is absolutely deplorable.

The claim could be made that right now Japan is the only major country that is unable to hold direct dialogues with China. This is not the time for both sides to be overly concerned about their own personal honor. Seeds of crisis are sprouting up here and there throughout East Asia, such as the North Korea issue. Breaking free of such abnormal conditions is a major matter of concern for the world at large, starting with our allies and the United States.

A Comprehensive Strategy that Goes Beyond the Senkakus

It must seem a little strange that even though 68 years have passed since World War II relations between Japan and China are cooling off when seen from the perspective that the European Union (EU) is moving forward with integration. The reconciliation between France and Germany, which gave priority to the peace and prosperity of Europe, led to the development of the EU. While the EU is now faced with a difficult situation in the form of the euro crisis, this is not to say that the fundamental significance of European integration has faded. Japan and China must start by learning from the reconciliation between France and Germany.

Jean Monnet turned the territory of Alsace-Lorraine into an area of reconciliation precisely because it was an area of conflict, and used it as a driving force for European integration. It was his wisdom that bore fruit in the European Coal and Steel Community (ECSC), which was the starting point for the EU.

By learning from Monnet, cooperation in energy and environmental sectors centered primarily around the joint development of the area around the Senkaku Islands should have the potential to breach the risk.

The Trans-Pacific Partnership (TPP), which Prime Minister Abe has positioned as a pillar of his growth strategy, should be used as the trump card in efforts to win over China, rather than as a weapon with which to tighten the net around the country. The first step is to appeal to China to take part in the TPP. In conjunction with this, it should attempt to combine frameworks such as the pending Japan-China-Korea free trade agreement (FTA) and ASEAN+6 (Japan, China, South Korea, India, Australia, and New Zealand) in with the TPP.

Japan's participation in all of the frameworks within the Asia-Pacific region could serve as the cornerstone for this. This is an excellent opportunity for Japan's economic and diplomatic strategies. The only way Japan can eliminate the China risks is by incorporating China into the international community, instead of continuing to face off

against China to no avail. Japan's historical mission has never been more profound.