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Japan–China relations

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From the Editors' Desk

The China-Japan relationship has made headlines in recent years. Political and security rivalry has badly damaged the bilateral relationship, yet major trade and investment ties continue to fuel the economies of both China and Japan, and the wider Asian region. Can this economic relationship alleviate China-Japan rivalry? Or will the political and security tensions between these two states lead to conflict in Asia? What will it take for China and Japan to negotiate a mutually acceptable regional order?

These are the questions with which this issue of *East Asia Forum Quarterly* deals. On the 70th anniversary of the end of World War II, the China-Japan relationship is mired in tensions over the remembered history of Japanese war and imperialism, maritime disputes in the East China Sea, and contested views about Asia's future strategic order. Yet Chinese President Xi Jinping and Japanese Prime Minister Shinzo Abe have also used backchannel diplomacy and two face-to-face meetings to lift the relationship from its nadir in 2012–13. Even more important are the trade, investment and growing people-to-people ties that serve as ballast in the relationship.

Yet the relationship is now at a crossroads. Japan can no longer invest in China as a low-cost manufacturing base, as China shifts towards higher-value-added manufacturing and services. Strategically, Japan should choose whether to remain dependent on the United States and resist China's efforts to dominate regional order or negotiate relationships with China and the United States that make Japan feel secure. Equally, China must decide where Japan fits in its own vision of regional order, and must find a productive way to relate to Japan, recognising that insecurity in relations will thwart China's efforts for regional leadership.

This special issue brings together top experts from China and Japan, as well as voices from beyond the region, to offer their perspectives on what is needed to fix the relationship. They emphasise the importance of diplomacy and economics, the role of leadership in shaping domestic expectations and the need for both sides to acknowledge squarely the positive and negative aspects of the interdependent history between China and Japan.

Amy King and Shiro Armstrong.
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No shared vision yet on a strategic order in Asia

COVER: Cool greetings: Japan's Prime Minister Shinzo Abe and China's President Xi Jinping in Beijing in November 2014, the first leaders-level meeting in two years.

PICTURE: Kim Kyung-Hoon / REUTERS / AAP.



This huge calligraphy work, displayed at Changchun railway station in September 2015, shows confessions made by Japanese war criminals after World War II.

How war memory continues to divide China and Japan

MICHAEL YAHUDA

ONE might think that the 70th anniversary of the end of World War II would lead to further deterioration in relations between China and Japan. But, to the contrary, the Chinese and Japanese leaders, President Xi Jinping and Prime Minister Shinzo Abe, are exploring the prospects for yet another meeting (they have already met four times in the last three years). It seems that the pragmatic calculations of regime survival, which include economic

cooperation and the perils of military conflict, outweigh historical memories, however contrived this history may be.

Japan and China remain divided over how to remember successive wars dating from the Sino–Japanese war in 1894 to World War II (known in China as the War of Resistance against Japan [1937–1945]). Official histories in both countries have been written to serve political needs, not respect historical accuracy.

Writing history under the aegis of the Chinese Communist Party (CCP) has always been designed to bolster

the current leader and his legitimacy. It did not suit Mao Zedong to dwell on the war with Japan. Apart from one occasion, he withheld Communist forces from fighting. After the People’s Republic of China was established, Mao chose to approve films on the war that depicted Kuomintang (KMT) officers and landlords as class enemies who tried to betray heroic workers and peasants to the Japanese soldiers. Mao’s claim to historic legitimacy stemmed from his victory in the civil war.

Despite his campaigns against class

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enemies and traitors of many kinds, Mao did not launch any campaign against alleged collaborators with the Japanese. Many of those dislodged from urban offices by the returning KMT after the Japanese surrender were welcomed in rural Yan'an as people with much-needed skills. Mao did not attack Japan diplomatically during most of the time he held power, except when some Japanese leaders displayed a preference for old friends in Taiwan.

Attitudes (and therefore history) began to change after Deng Xiaoping became leader. Class struggle was dropped in favour of a new emphasis on the unity of the Chinese people, which from 1979 onwards also included their 'compatriots' in Taiwan. The CCP's historical legitimacy henceforth was based on the War of Resistance Against Japan. There can be little doubt that this was welcomed by many of the millions of people who had genuinely suffered from Japanese wartime atrocities. But the official historical narrative was less interested in historical accuracy than in extolling the alleged role of the CCP in defeating the Japanese aggressors, even though the bulk of the fighting was done by Chiang Kai-shek's forces and not the Red Army.

In 1993, after the Tiananmen disaster, Deng's successor, Jiang Zemin, deepened the call for patriotism by setting up a huge patriotic education campaign that persists to this day. Japan in particular was excoriated as the last and most cruel of the foreigners who had humiliated China over 100 years, beginning with the First Opium War in 1839–42. It was also emphasised that Japan had not properly apologised and atoned for its aggression. Until it did so, it was argued, there was a danger of a revival of militarism, which could threaten the

security of the region as a whole.

The CCP depicts itself as the authentic representative of China's past glory at home and in the world more broadly. The 'rejuvenation of China' promised by CCP leaders and Xi Jinping's 'China Dream' all grow out of this history.

There is a tendency in Japan, too, to present itself as a victim of the war. Much is made of the bombing of Japanese cities—including the fire-bombing of Tokyo—culminating in the nuclear devastation of Hiroshima and Nagasaki. But few Japanese residents knew much about the actual fighting and the cruelties inflicted on civilians and prisoners of war in China, on the Korean peninsula and throughout Southeast Asia.

After the first year of the American-led occupation, administrators did not dwell on the pursuit of war criminals or exposing the horrors of Japanese conduct during the war. From 1947 onwards the main goal of the occupation was to rebuild Japan as a pillar against communism in East Asia. Imperial bureaucrats and former Zaibatsus (business conglomerates that held much power in the Japanese economy from the Meiji era to the end of World War II) such as Mitsui and Mitsubishi, which had served the imperial war machine were called back

... it is Japanese historians who have done most to expose the fallacies of the Japanese right wing's interpretation of history



A soldier tends a fallen comrade on a Chinese battlefield. Japan and China remain divided over how to remember successive wars from 1894.

to promote Japan's economic recovery.

Former imperial officials, who might otherwise have been prosecuted for war crimes, assumed important positions after the end of the Allied Occupation in 1952. They could hardly be expected to have exposed wartime horrors. The most prominent of these was Nobusuke Kishi—the grandfather of Prime Minister Abe—who went on to become prime minister. He and his associates in the conservative Liberal Democratic Party took the view that Japanese warfare was justified, alleged wartime atrocities were fabricated or exaggerated and that the Tokyo War Crimes Tribunal was no more than victor's justice.

Such right-wing views still animate important political figures in Japan, to the chagrin of many Koreans

and Chinese. These views are not representative of Japanese historians. Indeed, it is Japanese historians who have done most to expose the fallacies of the Japanese right wing's interpretation of history. The United States has done little to persuade the Yushukan Museum, adjacent to the Yasukuni Shrine, to correct its version of history that holds the Roosevelt administration responsible for the war.

The contested Japanese versions of history are not really about historical accuracy. They reflect divergent views about Japanese identity and its future orientation. The rightists envision a Japan that is proud of its past and that can deploy its armed forces without restrictions. Above all it should be a Japan that is ultimately freed of its cultural and strategic dependence on

the United States.

The more conservative mainstream differs from this vision mainly in recognising the importance of maintaining the US–Japan alliance and of finding a way to get on with neighbours, especially China. Mainstream Japanese opinion continues to be wedded to the pacifism pursued since the end of the occupation, but it is divided on whether to continue to rely on the strategic dependence offered by the United States or to find a way to get on with China. [EAFQ](#)

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Economic ties won't ensure peace between neighbours

JEAN-PIERRE LEHMANN

WILL increasing economic interdependence between Japan and China increase or reduce the risk of conflict?

The conventional liberal wisdom is that economic interdependence between states enhances peaceful relations—as in the saying attributed to the early 19th century French economist Frederic Bastiat: 'If goods don't cross borders, armies will'. But critics have pointed out that on the eve of World War II Germany and the United Kingdom were each other's major trading partners.

The specific patterns of Sino-Japanese relations also pose a possible challenge to this theory. For a very long period, from the 17th century to the mid-19th century, trade between China and Japan was limited to occasional visits by Chinese merchants to the port of Nagasaki. And there were no wars. Then, not long after both China and Japan were 'opened'—China with the First Opium War in 1839 and Japan with gunboat diplomacy in the 1850s—the Sino-Japanese War of 1894–95 broke out.

From the late-19th to the mid-20th century Japanese aggression towards China was virtually uninterrupted: the Sino-Japanese War, military invasion over the Boxer Uprising (1900), fighting on Chinese soil during the Russo-Japanese War (1904–05), annexing the erstwhile Chinese tributary state of Korea (1910), the Twenty-One Demands (1915), the occupation of Manchuria (1931), and

the outbreak of the Japanese war in China in 1937. In the process Japan established a substantial economic presence in China, especially in the northeast.

Then for three decades—from the Communist Revolution in 1949 to the launch of the reform program in 1979—China closed itself off from the rest of the world economy and there was only a small amount of trade between China and Japan; nor was there any armed conflict. Then, following Nixon's surprise visit to Beijing in 1972, Japanese prime minister Kakuei Tanaka hurried to Beijing, diplomatic relations were renewed, trade picked up and Japanese aid flowed to China.

Can economic interdependence erase or even attenuate fundamental antagonisms? Are long-term sustainable economic relationships possible with people you mistrust?

As noises began to spread in the 1980s that China's new economic program heralded potential major transformations and opportunities, Japanese investors seemed unwilling to take a chance on China. The Japanese did not see the rise of China coming and are still reeling from the shock.

To go forward, we first need to retrace our steps.

As Rana Mitter recently documented in *China's War with Japan, 1937–1945: The Struggle for Survival*, historians have grossly misrepresented, if not obliterated, China's role in aiding the defeat of Japan in World War II. This is reflected in, among other things, the prevalent view among Japanese that defeat was at the hands of the Americans, not the Chinese!

American occupation policy underwent a dramatic 180-degree change after the Communist Party took control in China and the Cold War settled on the world. Japan metamorphosed from defeated enemy to pampered protégé. In a large part thanks to all the American support—massive transfers of technology, setting the value of the yen at a low, highly competitive exchange rate (360 yen to the US dollar), opening of the US market to Japanese goods—the Japanese economy rose rapidly, engendering the 'economic miracle' of the 1960s. Within a dozen years after the war it became the world's second biggest economy. During this time the Chinese continued to be dirt-poor.

Throughout the 1980s the Japanese economy grew rapidly and appeared



At home to visitors: then Japanese prime minister Kakuei Tanaka, right, with Chinese premier Zhou Enlai, left, and president Mao Zedong at Mao's Beijing residence in September 1972. The visit normalised relations between the Asian neighbours.

to be poised to surpass the United States. Then, as the Japanese economy tanked into its lost decades—in stark contrast to China's inexorable rise—economic interdependence intensified. China and Japan became major trading partners. What meagre growth Japan was able to generate was driven by exports to China. Japanese direct investments surged and Japanese technology played a critical role in the development and competitiveness of China's global supply chains. Most recently, with the advantage of the declining value of the yen, Japan has become a major destination for Chinese tourists.

While the mutual benefits derived from economic interdependence would seem to indicate that all is well, this is far from the case. There

are disputes galore, including over territory (the Senkaku/Diaoyu islands), over history and over Japanese Prime Minister Shinzo Abe's defence policy. In a Pew Survey on Global Views of China, the Japanese stand out as having the most 'unfavourable' views of China at 89 per cent. The second is Vietnam with 74 per cent 'unfavourable', while the figure is much lower among China's other Asian neighbours: 37 per cent for South Korea, 32 per cent for India, 22 per cent for Indonesia and 17 per cent for Malaysia. For the United States it is 54 per cent.

All this raises several key questions. Can economic interdependence erase or even attenuate such fundamental antagonisms? Are long-term sustainable economic relationships

possible with people you mistrust? As China's economy seems to be headed for choppy waters, might Beijing be tempted to encourage popular venom against Japan to deflect attention from domestic ills?

More fundamentally, can economic pragmatism trump nationalist fervour? The lessons from history in respect to this question are not encouraging. Economic interdependence is not enough: measures for confidence-building and dialogue are urgently required. **EAFQ**

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Asian stability hangs in the balance

ROBERT A. MANNING AND
JAMES J. PRZYSTUP

HISTORY strongly suggests that the character of relations among major powers is a key determinant of stability. Europe was convulsed in continuous warfare until France and Germany came to terms after World War II. Only then did Europe enjoy the prospects of integration leading to the European Union.

Similarly, in the Asia Pacific the future of regional order will be significantly defined by the character of Sino–Japanese relations. There have been progressive and regressive cycles since Tokyo and Beijing normalised relations in 1971, but since 2000, largely reflecting China’s rise and the evolution of the US–Japan alliance, Sino–Japanese ties have been on a downhill slide.

Importantly, Chinese views of the US–Japan alliance have evolved since the end of the Cold War. During the 1990s, Chinese analysts viewed the US–Japan alliance as a net good. As a leading Chinese analyst, Wu Xinbo, has noted, views among Chinese analysts have shifted from an appreciation that the alliance was a ‘useful constraint on Japan’s remilitarisation’ during the 1990s, to the view in the mid-2000s that ‘enhanced security cooperation between Washington and Tokyo compromises China’s security interest’.

It was no coincidence that as the 21st century began and after decades of double-digit growth, China’s economy began to rival Japan’s. By

2010 China’s GDP of US\$5.47 trillion surpassed Japan’s US\$4.88 trillion economy.

As China’s economy took off and its military began to modernise, Japanese defence planners became increasingly concerned about the implications of China’s growing military prowess. Japan’s 2004 Defense Planning Guidelines first called out China in a public document, pointing to China’s ongoing military modernisation and its expanding maritime operations, noting that Japan would have to ‘remain attentive to its future actions’.

As China’s confidence and self-image as an emerging great power rose, Sino–Japanese ties became more contentious. In September 2010, a Chinese fishing trawler operating within Japan’s exclusive economic zone in the Senkaku/Diaoyu islands collided with two Japanese coast guard ships. In the ensuing controversy over the custody of the ship’s captain and crew, China cautioned Japan against taking ‘so-called law enforcement activities’ into Chinese waters.

Abe has focused on peaceful resolution and avoiding threats and use of force, emphasising the importance of the Japan-US alliance

This incident froze implementation of a 2008 agreement to jointly develop resources near the disputed Senkaku/Diaoyu islands, marked a rise in tensions and underscored the political limits of Chinese accommodation. It also reflected a rise in anti-Japanese nationalism in China, increasingly a pillar of the Communist Party’s legitimisation.

The Senkaku/Diaoyu islands dispute intensified two years later, in 2012, when Japan purchased three of the five islands from a private owner. High-level political and diplomatic contacts went into the deep freeze and large-scale anti-Japanese riots spread throughout China. Japanese Prime Minister Shinzo Abe’s visit to the Yasukuni shrine in December 2013 deepened the impasse.

Meanwhile, China’s increasing presence in the Senkaku/Diaoyu island chain and Japan’s declared Air Defense Identification Zone (ADIZ) heightened Japan’s security concerns with regard to ‘grey zone’ situations. As such, in 2013 Japan’s National Security Strategy described Japan’s security environment to be ‘ever more severe’, with China’s incursions into Japan’s ADIZ almost tripling the number of scrambles by Japan’s Air Self-Defense Force jets from 156 in 2011–12 to 415 in 2013–14.

To address Japan’s increasing security concerns, US President Barack Obama in April 2014 made it clear that Article 5 of the US–Japan Alliance extended to the Senkaku/Diaoyu islands. This was a significant setback to Chinese efforts to drive



US President Barack Obama and Chinese President Xi Jinping with other APEC-nation leaders at the Beijing summit in November 2014. Although China remains in existing international institutions, it has begun to promote its own parallel bodies.

a wedge into the alliance over the Senkaku/Diaoyu issue. At the same time, Japanese direct investment into China's slowing economy plunged, down nearly 50 per cent in 2014 and a further 16 per cent in the first half of 2015.

Over the course of 2014, diplomats in Tokyo and Beijing explored paths towards accommodation that both Prime Minister Abe and Chinese President Xi Jinping could accept. In an act of inspired diplomacy, in November 2014 the two sides agreed to a four-paragraph document whose texts differed creatively on the sensitive issue of Senkakus/Diaoyu. Two days later, Abe shook hands with a stone-faced Xi.

Behind the ups and downs of this relationship are competing visions of order and leadership in the Asia Pacific region.

In the early 2000s, China supported a version of the East Asia Summit

(EAS) that excluded the United States, Australia and New Zealand, which Japan successfully contested. Twelve years later, Xi called for a new 'Asia for Asians' security architecture, one that departed from the 'outdated thinking' of the Cold War. He added that 'no country should attempt to dominate regional affairs or infringe on the legitimate rights and interests of other countries'. Thus Beijing effectively cautioned Japan and the United States not to involve themselves in the South and East China Sea disputes.

While China remains in the old Bretton Woods institutions and similar associated institutions such as EAS and the Asia Pacific Economic Cooperation (APEC) process, Beijing's assertiveness now includes the promotion of parallel institutions as a hedging strategy. The One Belt One Road concept, the Asian Infrastructure Investment Bank, the Shanghai Cooperation Organization

and Conference on International Confidence Building in Asia all pose new challenges for the regional order and the US–Japan alliance.

Early in his second administration, Abe set out five principles for Japanese diplomacy, including 'universal values' and governance of the maritime commons by 'laws and rules, not by might'. In subsequent remarks on territorial disputes in the South and East China Seas, Abe has focused on peaceful resolution and avoiding threats and the use of force, emphasising the vital importance of the Japan–US alliance in maintaining the safety and prosperity of the Asia Pacific region, of expanding ties between Japan and America's other allies and partners, and of strengthening Japan's 'ties with maritime Asia'. Abe has also shifted Japan's defences, stationing troops on Southwest islands.

Abe and Xi met on 22 April in

Jakarta during the Asia–Africa Summit. Additionally, Abe’s 14 August speech to mark the 70th anniversary of the end of World War II appears to have paved the way for a Beijing summit later this year. But, as Beijing prepared for China’s 3 September victory parade, it was clear that issues relating to history, territory, security and regional vision will continue to trouble this relationship. If the past decade is a prologue, the best that can be hoped is that rationality prevails in managing the critical issues that stalk the bilateral relationship and the region.

The likely trajectory of Sino–Japanese relations depends on China’s approach to regional order. Currently there is a bifurcated relationship marked by economic cooperation and security competition. This duality characterises East Asia writ large. Over the coming decade, whether China joins Trans-Pacific Partnership (TPP) and how it responds to instability on the Korean peninsula will both be inflection points in shaping Sino–Japanese ties. More broadly, whether or not US–China relations are more cooperative than competitive and whether they forge a framework for strategic stability will be a bellwether for the future success of such ties. **EAFO**

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The Koizumi years, a time of lost opportunities

MADOKA FUKUDA

RELATIONS between Japan and China shifted significantly during the Koizumi years and this has created ongoing issues for the relationship between the two countries even today. Junichiro Koizumi served as Japanese prime minister from April 2001 to September 2006—the third-longest-serving administration in post-war Japan. This was a time when China increased its global and regional presence and importance, a change that was fully recognised by the Japanese government. But domestic politics in both countries came to hinder all opportunity for bilateral summit meetings. The mutual goodwill between the public also declined to the point where

While Koizumi acknowledged the economic development of China as an opportunity, his visits to Yasukuni created political problems for the Chinese leadership

negative sentiment placed additional constraints on Koizumi and then Chinese president Hu Jintao and prevented them from repairing the relationship.

China’s accession to the World Trade Organisation (WTO) in 2001 was a symbol of its growing stature in the international community, as well as a sign that China sought to take a greater role in global cooperation. The Japanese government supported China’s WTO accession. This was in line with Japan’s China policy at the time, which attempted to encourage China to actively adhere to international rules and fulfil its global responsibilities. Economic integration between Japan and China increased as a result of China’s WTO accession—by 2007, China had become Japan’s largest trade partner (overtaking trade with the United States), and trade expanded continually during the Koizumi years.

On top of this, Prime Minister Koizumi was invited to attend the very first meeting of the Boao Forum for Asia, which China has organised since 2002. It was there that Koizumi delivered a speech titled ‘Asia in a New Century—Challenge and Opportunity’. It was a move to show that in order to claim leadership in regional cooperation, China would require backing from Japan and that Japan welcomed such a notion.

As economic interdependence continued to grow, and both countries



Former Japanese prime minister Junichiro Koizumi: domestic politics in Japan, as in China, thwarted the desire of both governments to develop a closer and more positive relationship.

emerged as regional powers, Japan and China realised that they could not ignore each other. Nevertheless, strains in the political relationship developed over time, with Koizumi's visits to Yasukuni Shrine in particular causing the relationship to deteriorate.

Koizumi first visited Yasukuni Shrine in August 2001, as he pledged when he was elected as the President

of the Liberal Democratic Party (LDP). But in October that same year, he also made a trip to the Museum of the War of Chinese People's Resistance Against Japanese Aggression at Lugouqiao (Marco Polo Bridge) in Beijing. During this visit he expressed 'deep remorse and a heartfelt apology' as a conciliatory gesture in Japan's relationship with China.

When Koizumi visited Yasukuni for the second time in 2002, after his speech at the Boao Forum, it drew fierce condemnation from the Chinese side. Ultimately, Koizumi visited Yasukuni annually in his official capacity as prime minister. This prompted China to demand a halt to these official visits as a precondition for resuming top-level bilateral summit meetings.

Although protests against Koizumi's Yasukuni visits continued, signs of a willingness to take a new approach emerged in China after Hu Jintao's inauguration as Chinese leader in autumn of 2002. This was manifest in Ma Licheng's 'The "New Thinking" on Japan,' which centred on the possibility of forming a new Japan policy without being constrained by historical issues. The new leadership of China also utilised opportunities—such as international conferences—to maintain summit meetings between leaders of Japan and China. Yet large-scale anti-Japanese demonstrations still broke out across China every weekend throughout the spring of 2005 in opposition to Japan becoming a permanent member of United Nations Security Council.

During Koizumi's prime ministership, the Communist Party of China (CCP) was undergoing a transition of power from Jiang Zemin to Hu Jintao and it was difficult for the Hu–Wen leadership group to formulate a foreign policy of its own. The anti-Japanese demonstrations were seen as a way to rattle Hu's leadership and its willingness to take a softer approach towards Japan, and were possibly influenced by struggles within the Party.

Ultimately, this decline in affinity between the Japanese and Chinese people became an obstacle to the restoration of the relationship by the

two leaders. In addition, Chinese Baodiao activities (or the Defend the Senkaku/Diaoyu Islands movement) and the development of gas fields in the East China Sea were beginning to be regarded as national security threats to Japan. The friction and tension that existed between Japan and China then came to exert influence on wider public sentiment through the media and the internet. In China, this tension was reflected in the form of protests against Japanese students' performance in Xi'an in 2003, anti-Japan riots over the Asian Cup in 2004 and anti-Japanese demonstrations in 2005. Similarly, public opinion polls in Japan revealed a significant decline in sentiment towards China.

The various factors that led to the current complications in Japan–China relations became apparent during the Koizumi years. While Koizumi acknowledged the economic development of China as an opportunity, his visits to Yasukuni created political problems for the Chinese leadership, denying opportunities for bilateral dialogue. Yet Koizumi's historical awareness itself, shown both in his talk at Lugouqiao and in the statement he made on the 60th anniversary of the end of World War II, should not have been unacceptable to the Chinese leaders. Although the Hu Jintao leadership sought to improve relations with the Koizumi administration, it failed to make any breakthroughs. On top of domestic political issues, a steady decline in goodwill between the Chinese and Japanese public emerged as a new challenge for the leadership of both countries. **EAFQ**

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Fixing the relationship: a view from Japan

RYO SAHASHI

QUESTIONS of history were the focus of a long hot summer in Northeast Asia. Many speculated that on the 70th anniversary of the end of World War II, Japanese Prime Minister Shinzo Abe, with his cabinet's approval, would issue a new statement that leaned towards a more 'nationalistic' understanding of Japanese history from the late 19th century to the Pacific War.

As it turned out, the statement published on 14 August was in line with previous statements made by post-war Japanese governments and included key phrases from prime minister Murayama's earlier statement. Still, Abe's statement has drawn criticism. While he repeated the key phrase 'deep remorse and heartfelt apology', some have criticised Abe for avoiding expressing this sentiment in his own words. Others regard parts of his statement as an attempt to satisfy his conservative supporters, especially the assertion that '[w]e must not let our children, grandchildren, and even further generations to come, who have nothing to do with that war, be predestined to apologise.'

But Abe's statement continued: 'Even so, we Japanese, across generations, must squarely face the history of the past. We have the responsibility to inherit the past, in all humbleness, and pass it on to the future.' These two sentences may

sound redundant, but by repeating this sentiment Abe asked his fellow Japanese to remember 'the histories of suffering of the people in Asia' due to colonisation, invasion and human rights abuses of women and prisoners of war.

No two people in a democracy have the exact same perception of history, but Abe's speech reflects the basic consensus among Japanese. Throughout the post-war period, mainstream Japanese historians, novelists and filmmakers have reflected on and expressed remorse for the path taken by pre-war Japan. This mind-frame constitutes the foundation of Japan's unique pacifism. Conservatives have tried to challenge the consensus, especially since the 1990s, but Abe's statement inherits the most critical understanding of Japan's war history from previous administrations. Importantly, Japanese voters have expressed their support for such a balanced statement, something shown by the subsequent 10 per cent rise in the cabinet's approval ratings. It is clear that most Japanese want to see stable and prosperous relations with their neighbours.

It is time for Japan and China to take steps towards forging a renewed bilateral relationship. It is unlikely that the current and incoming prime ministers of Japan will challenge the history question again, at least in this decade.

Japan–China bilateral political



Prime Minister Shinzo Abe reading his statement on 14 August, which expressed 'deep remorse and heartfelt apology' for Japan's actions in World War II.

relations have not bounced back from a post-crisis low in 2012–13, even after two summit meetings on November 2014 and April 2015. Certainly, more Chinese people are visiting Japan for tourism, study and business. The political atmosphere has changed from what it was after September 2012, when Chinese protestors destroyed Japanese factories in response to the Japanese government purchasing three of the disputed Senkaku/Diaoyu islands from their private Japanese owner. But both countries are yet to construct a cooperative political relationship.

China and Japan's leaders must recognise that building a new, mutually acceptable strategic order for East Asia is the key for Sino–Japanese cooperation and that stable Sino–Japanese relations are just as valuable as their bilateral relations with the United States.

The historical meaning of the

US–China rapprochement in the 1970s is that China accepted the political and military role of the United States and its alliances in the regional and global order. In exchange, the United States and its partners welcomed China into the international order by providing assistance.

Today, some in China—and elsewhere in Asia—are calling for a review of the regional and global order to reflect the new balance of power, given China's rise.

RECENT Chinese initiatives such as the Asian Infrastructure Investment Bank and the One Belt One Road policy are two examples of Chinese efforts to play a bigger role in the mega-regional developmental order. In this context, US rebalancing to Asia by enhancing its alliance and partnership network, has been criticised as an attempt to 'contain' China both politically

and economically. Also, as recent maritime territorial disputes in Asia have indicated, understanding of international laws and rules on all sides are weak enough to cast doubt on the resilience of liberal maritime order.

Greater diplomatic efforts are necessary, given that Japan and China's different ideas about the international order trouble the relationship. Considering Japan's still strong influence on other Asian countries, China cannot ignore the advantages of engagement with Japan. China should seek to avoid any potential criticism that it is seeking regional dominance or trying to construct a new international order that undermines the existing post-war liberal international order. By cooperating with Japan, China could soften US anxiety about these affairs. On the other hand, Japan should understand the importance of incorporating an increasing Chinese role in the

international order. To hold dialogues on the developmental and maritime order would be their first step.

If China and Japan were to hold successful dialogues, Japan's hands-on experience would benefit China. For example, China could learn from Japan's experience with its demographic challenges, which China will likely face in coming years. Japan has many resources and much knowledge to support healthy growth and stability in China on its trajectory towards slower and more sustainable growth.

Bilateral relations between Beijing and Tokyo are still crucial and any remarks from leaders that could fuel tensions should be avoided. Politicians are responsible for educating their populations on the merits of peaceful, prosperous relations. Some Japanese politicians have already made progress on this front. It was former prime minister Junichiro Koizumi who stressed that Japan welcomed the rise of China. And Prime Minister Abe, in his 14 August statement, reaffirmed that '[w]e must never again repeat the devastation of war'. Chinese as well as Japanese politicians should publicly stress the importance of bilateral relations. This would encourage public servants as well as civil society groups in both countries to avoid provocation and seek mutual exchange.

Japan and China are neighbours and destined to coexist. A sense of rivalry (or ignorance) inhibits both China and Japan from constructing a win-win situation. Their diplomatic priority is to work at rectifying this situation.



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Fixing the relationship: a view from China

ZHA DAOJIONG

EVIDENCE of a strain in the diplomatic relationship between China and Japan over the past few years has been most apparent in the absence of summits between top government leaders, which has in turn affected routine meetings at the ministerial level. It seems that Beijing still has not overcome its diplomatic 'Noda shock'. What hope, then, is there for an improvement in this relationship?

In September 2012, the very day after his meeting with then Chinese president Hu Jintao on the sidelines of APEC in Vladivostok, then Japanese prime minister Yoshihiko Noda announced the nationalisation of some of the disputed Senkaku/Diaoyu

Official development assistance from Japan played a powerfully supportive role in China's re-linking with the rest of the world economy

islands. For many in China, it was an unfathomable shock that a Japanese leader was so ready to disregard a Chinese leader's domestic political circumstances or, seen another way, to mount such an outright challenge to his authority at home. Since then, high-level meetings have ground to a halt, the brief and visibly uncomfortable meeting between President Xi Jinping and Prime Minister Abe on the side of APEC 2014 in Beijing notwithstanding.

To resume such meetings, bilaterally, trilaterally (China-Japan-South Korea) or on the side of multilateral forums, is of course in China's interest in pursuit of a less tense external environment. But the true test is how to effectively signal their utility to respective domestic constituencies. For Beijing, Tokyo and indeed Seoul, several years of domestic acrimony on such sensitive issues as territorial sovereignty and wartime history has been such that it has put all countries' leaders between a rock and a hard place. A prudent act of leadership now would be to gear domestic attitudes on such delicate issues towards strategic patience. This is not an easy task, yet it is essential for even a photo-op meeting to be worthwhile at all.

The history issue is often said, by those in both China and Japan tasked to find ways out of the continuing impasse, to be the key roadblock

to progress. Over time, hope for government-sponsored joint versions of the history of World War II has faded to the point where there ought to be consideration of even dropping the entire project.

China, ideally, should come up with the intellectual fortitude to publicise domestically Japan's post-war contributions towards China's pursuit of modernisation. In the 1950s, while locked in Cold War hostility towards the Chinese government, the Japanese government allowed limited trade activities to proceed when the former was under broad Western isolation in the wake of the Korean War. Official development assistance from Japan played a powerfully supportive role in China's re-linking with the rest of the world economy, and not only in a material sense. Particularly in the 1970s and 1980s, the fact that China and Japan were able to work cooperatively in trade and investment relations was seen as a vote of confidence in China by other industrialised nations.

China could not have succeeded in improving its relative economic position were it not for the foundation laid in these early years. Sure, China did pay back its yen loans, but this history of economic aid still merits recognition.

To do this is, fundamentally speaking, in the interest of the Chinese polity itself. Indeed, for the past two years the phenomenon of increasing numbers of Chinese tourists travelling to Japan even against the backdrop of difficult government-to-government diplomacy can and should serve as a reminder: government-sanctioned versions of Japan are being tested. As is true in other societies, for the average citizen, while remembering an intolerable past is important, it can hardly be the only dimension of



A protester holds up a defaced picture of then Japanese Prime Minister Yoshihiko Noda during a demonstration in front of the Japanese embassy in Beijing on 18 September 2012, the anniversary of the Mukden Incident in 1931 that later led to Japan's invasion of China. Noda's decision to purchase the Senkaku/Diaoyu islands in 2012 exacerbated tensions with China.

a relationship with another society. I believe the Chinese nation-building project could benefit immensely from narrowing the unspoken gaps between accounts of pre-1945 Japanese atrocities in China and present-day sentiments about Japan that its citizens gather through personal observation and interactions.

Likewise, Japan needs to demonstrate political courage and argue that the time has come for its government to finally stay clear of efforts to whitewash what the country did in China and the Korean peninsula during the war. Yes, the Japanese political system is far more pluralistic. But how the Japanese polity projects the country's past to its own citizenry has been, is and will be taken into account by other countries, especially those that once suffered. Japan should be aware of the future costs that the ongoing diplomatic tensions carry. A truly wise approach would be to re-orient domestic conversations about the past and their present-day relevance for the nation itself.

With China's formal celebration of the 70th anniversary of the end of World War II behind us, Beijing and Tokyo should proceed by making progress on economic cooperation initiatives that have stalled in recent years. Reinvigorated negotiations toward a China–Japan–Korea free trade agreement give rise to hope that this useful addition will eventuate. In many ways it would be a natural follow-on to the trilateral investment treaty signed in 2012. It would signal that the Chinese and Japanese leaderships are indeed committed to being future-oriented in their handling of the relationship.

The past few years have also witnessed both Beijing and Tokyo testing their separate capacities in building up respective coalitions of



'Shooters' on USS George Washington prepare to launch an E-2C Hawkeye during exercise Talisman Sabre in the Timor Sea in September 2015. Japan joined the US-Australian exercise for the first time.

the willing in the East Asian region and even beyond, over issues ranging from investment to maritime order. Factors feeding into this race include changes in United States policy as well as campaigns by some Southeast Asian governments, those of the Philippines and Vietnam in particular. For China, Japan and indeed the United States, it is becoming more and more obvious that no party can prevail in attempting to re-engineer the regional security and economic order as textbook geostrategic and geoeconomic mapping would suggest.

One suggestion is for China and Japan to take a page out of Australia's book in its handling of its security relationships. By conducting joint exercises, however low-level, with the US and Chinese militaries, Australia has demonstrated that the principle of inclusivity can play a role in handling the mixture of strategic competition and cooperation in the region. The

Australian approach amounts to a separation of military affairs from economic ones. China and Japan should explore similar joint projects involving Southeast Asian countries.

Above all, positive synergy is what really matters in rescuing government-to-government interaction between China and Japan from its present downward spiral. Achieving this requires boldness, wisdom and the utmost care when making every move. After a four-decade long history of uninterrupted economic and societal interactions between China, Japan and other countries across the Asia Pacific region, there has to be ample political will to take the relationship between Beijing and Tokyo on to a more positive path. **EAFC**

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Will ASEAN survive great-power rivalry in Asia?



AMITAV ACHARYA

PUNDITS and policymakers increasingly see changing great-power politics in Asia as a challenge to ASEAN. Of particular concern is China's growing military assertiveness in ASEAN's backyard, the South China Sea, and the United States' 'rebalancing' or 'pivot' strategy. Added to this picture are Japan's moves to reinterpret its constitution to allow more room for forward military operations, India's growing military presence in the Indian Ocean,

extending to East Asian waters, and its assertive diplomacy under Prime Minister Narendra Modi.

Critics argue that ASEAN is both toothless and clueless in responding to these changes. Its main reaction has been to persist with regional institutions such as the ASEAN Regional Forum (ARF) and the East Asian Summit (EAS), disparagingly seen as 'talk shops'. This approach might have been sufficient when great-power relations were less volatile in the immediate aftermath of the end of the Cold War, but it has now outlived

A satellite image, issued by the Center for Strategic and International Studies (CSIS) think tank, showing an airstrip under construction at Fiery Cross Reef in the Spratly Islands.

its usefulness. Critics not only write off the idea of 'ASEAN centrality' in Asia's regional architecture, but also the very survival of ASEAN as a regional community.

These criticisms miss a major point. While ASEAN faces significant challenges, these have less to do with its external environment, such as



A wall-sized graffiti welcomed US President Barack Obama to Yangon in November 2014. On that visit to Myanmar he attended the East Asia Summit and the US-ASEAN summit. ASEAN's efforts mean that 'Asia is the only region in history where the strong live in the world of the weak, and the weak lead the strong'.

great-power policies and interactions, than with strains in ASEAN's internal cohesion and capacity, due especially to its expanded membership and agenda. ASEAN's external environment is actually more helpful to its security role than is commonly portrayed. If ASEAN's unity holds and it makes necessary changes to its ambitions and agenda, it should not only survive great-power competition but continue to play a meaningful role in managing that competition, at least in Southeast Asia.

Criticisms of ASEAN stem from traditional perspectives on the nature of great-power politics. These perspectives vary from views like those of John Mearsheimer, who argues that rising powers must expand to survive, often leading them to seek regional hegemony and provoking conflict with existing great powers. There are

others who argue that international stability is a function of the number of great powers and the distribution of capabilities among them. A multipolar system, where the main actors are the great powers, will be more prone to instability and conflict than a bipolar system, as during the Cold War, or a unipolar system with a single hegemon.

These scenarios point to a bleak future for ASEAN. Chinese regional hegemony, whether coercive or relatively benign, is bad news for ASEAN. If it materialises, it will certainly cover at least parts of Southeast Asia, including the states involved in the South China Sea conflict. A multipolar system dominated by the great powers gives little space to smaller and weaker states, which would be victims of great-power politics.

Both these perspectives have been reinforced by Chinese moves in the South China Sea and the East China Sea, as well as Russian moves in Ukraine and Eastern Europe. Many analysts see these developments as signs of Chinese and Russian expansionism, a 'return of geopolitics' and the arrival of 19th-century European geopolitics in Asia.

There are of course alternative and more positive views about great-power politics. Hedley Bull stressed the special responsibility of the great powers in the management of international order. Karl Deutsch and David Singer rejected the idea that multipolarity invariably leads to great-power competition and conflict. It may make war less likely by making a potential aggressor less sure about its alignments and enlarging the size and power of a potentially countervailing

coalition. Multipolarity increases opportunities for interaction among the major players, creating cross-cutting pressures on their strategic designs.

But even these relatively optimistic perspectives still assume great-power primacy in maintaining stability, and none of the above perspectives recognises the possibility of smaller and weaker players influencing great-power politics. If the traditional perspectives were correct, ASEAN would have been doomed from its birth in 1967.

ASEAN is an anomaly in the universe of great-power politics. Not only has it survived, but it has contributed significantly to reducing and managing conflict in Southeast Asia and has served as the main anchor of regional cooperation. This now involves all the major powers of Asia and, indeed, the world. As a result, Asia is the only region in history where the strong live in the world of the weak, and the weak lead the strong. ASEAN's record has been mixed, but ASEAN turns traditional realism on its head.

Great-power politics may be a constant in world history, but it does not reappear in the same way and for the same reasons. The phrase 'great-power rivalry' is misleading because of the significant and far-reaching cooperation that exists among the same great powers both at regional and global levels. And this cooperation is underpinned by a type of interdependence that simply did not exist a century ago.

What this means is that the term multipolarity, a Eurocentric notion, is now out of date. It referred mainly to the number of actors and the distribution of power among them but said much less about the substance and quality of their interactions. If

one takes the latter into account, the dominant feature of the world and Asia today is not multipolarity but multiplexity.

Multiplexity, or the idea of a multiplex world, differs from a multipolar system in significant ways. Whereas the traditional conception of multipolarity assumed the primacy of the great powers, actors in a multiplex world are not just great powers or nation states, but also international institutions, non-governmental organisations, multinational corporations and transnational networks (both good and bad).

A multiplex order is marked by complex global and regional linkages including not just trade but also finance and transnational production networks, which were sparse in pre-World War European economic interdependence ordered around ties to the old imperial powers. Interdependence today is not only economic in nature but covers many other areas, such as the environment, disease, human rights and social media. A multiplex order has multiple layers of governance, including global, inter-regional, regional, domestic and sub-state. Regionalism is a key part of this, but regionalism today is open and overlapping. This is a far cry from 19th-century imperial blocs that fuelled great-power competition

On transnational and global challenges, ASEAN should share more responsibilities with middle powers

and war, and which are unlikely to reappear.

While power hierarchies remain, the overall architecture of a multiplex world is non-hegemonic. The world is unlikely to see global hegemonies like Britain and the United States. China is not going to be one. A multiplex world is one that encourages pluralistic and shared leadership at both global and regional levels. ASEAN's prospects should be judged not in terms of old-fashioned, outdated notions of multipolarity, but of these unfolding changes towards a multiplex world.

ASEAN's big advantage is that there is currently no alternative to its convening power in the region. The great powers of the Asia Pacific—China, Japan, India and the United States—are not capable of leading Asian regional institutions because of mutual mistrust and a lack of legitimacy. Renewed great-power competition does not undermine but supports 'ASEAN centrality'.

Recent Chinese economic and security initiatives such as the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund are not likely to alter this situation. The AIIB is one of the first serious initiatives from China to promote Asian cooperation and commit to multilateral institution building. China had little to do with the establishment of APEC in 1989, the ARF in 1994, ASEAN+3 in 1997 and the EAS in 2005. The AIIB challenges the principle of ASEAN centrality; yet Chinese initiatives are qualified by China's problems in regional political and security issues.

China has proposed the idea of a conference on interaction and confidence-building measures in Asia (CICA), calling for 'Asian solutions to Asian problems'. But this initiative has found little traction and even evoked suspicion. Its prospects are

diminished by China's territorial disputes with its neighbours, mistrust and apprehensions about Chinese geopolitical intentions and power in the region.

ASEAN cannot take full advantage of this situation if it becomes a house divided. ASEAN's potential impact will be limited if the domestic politics in key member states detract from their engagement in ASEAN or if it suffers from lack of leadership. To revitalise itself, ASEAN should do what a large corporation facing declining competitiveness and profitability does: downsize. Not in terms of its membership or its staff, which is small anyway, but in terms of issue areas. This does not mean removing itself from the South China Sea issue, as Cambodia has suggested.

Instead ASEAN should focus more on issues within Southeast Asia and its immediate environment, and forget about the Korean peninsula, the Taiwan Strait and India–Pakistan conflicts. These are now discussed through the ARF and EAS. As the convener and agenda-setter, ASEAN should give more focused attention to the South China Sea, no matter what China says. On transnational and global challenges, ASEAN should share more responsibilities with middle powers, such as South Korea, Australia and Canada, which are ASEAN's dialogue partners and members of APEC, the ARF and EAS (except Canada).

ASEAN needs to audit its commitments, drop the less urgent ones and focus selectively on the more important and urgent items. It should make greater use of global and interregional institutions (such as the Asia–Europe Meeting, the various UN bodies and, through Indonesia, the G-20) to build cooperation in areas that cover but go beyond Southeast



Dancers perform at the opening ceremony of the ASEAN summit in Naypyitaw in November 2014. In Southeast Asian affairs, as in dance, 'cooperation is underpinned by a type of interdependence'.

Asia, rather than taking them on directly. This would include climate change, health issues, terrorism and disaster management.

ASEAN should further seek to rationalise the purposes and functions of the regional bodies in which it participates. There is overlap in the ARF, APEC, ASEAN+3, EAS and ASEAN's Post-Ministerial Meetings (ASEAN–PMC). Creating a division of labour and building better synergy among them would reduce the burden on ASEAN. It should cut by a third the more than 1000 meetings its secretariat staff attend each year, and better train and deploy an expanded core staff. It should use a professional international agency to recruit its core secretariat staff, eliminating political manipulation and enhancing professionalisation.

ASEAN's marginalisation—even death—from changing great-power behaviour has been predicted a few times before and each time it has proven to be exaggerated. On each

occasion ASEAN emerged stronger, not only because these prophecies were exaggerated but also because ASEAN stepped up its act to cope with new strategic developments. The Bali Summit in 1976, the decade of persistent diplomacy to end the Cambodia conflict through the 1980s and the launching of multilateral dialogues in the early 1990s are examples of responses to changing great-power politics. If ASEAN fails to adjust course now, it might not be so lucky this time. **EAFO**

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Is Sinocentrism putting Russia's interests at risk?

NATASHA KUHRT

MUCH has been made of Russia's 'pivot' to the Asia Pacific, but is it all much ado about nothing? In Russia and in the West the pivot is presented as a 'sudden' change, but we must see it in the context of the US rebalance to Asia and heightened rhetoric over Ukraine. This policy is not so much a pivot to the Asia Pacific as the intensification of a gradual recalibration towards greater Sinocentrism in Russia's Asia policy.

Yet the current downturn in the Chinese economy places a question mark over the extent to which Russia can continue to rely so exclusively on its eastern neighbour. The Russian Far East, long neglected by the Kremlin, had appeared to be moving higher up the list of priorities. In the run-up to APEC in 2012, when Vladivostok was hurriedly 'dolloed up' for the occasion, a whole new ministry for the Russian Far East was created. The only other region with its own ministry is Chechnya.

Until the Ukraine crisis, Moscow had been talking about diversifying its Asia Pacific policy, which under the Putin administration had previously been heavily reliant on China.

At first glance relations between China and Russia look like a success story particularly in the field of energy. In 2014, China's purchases of Russian oil increased by 36 per cent. In the longer term, if the much-touted Sino-Russian gas deal of May 2014 materialises, this would create a mutual dependence.

The huge gas deal was signed at the height of the Ukraine crisis. China's response to Ukraine reflected its long-standing positions on non-interference and territorial integrity. China is concerned about any potential implications of events in Crimea for Tibet, Xinjiang and Taiwan. The commentary in Chinese official publications sided with Russian claims of Western interference in the domestic politics of Ukraine and hypocrisy in hailing the independence of Kosovo but not of Crimea. Russian President Vladimir Putin publicly thanked 'the people of China, whose leadership sees the situation in Crimea in all its historical and political integrity'.

Given that Russia and China had been in negotiation for nearly two decades over price issues, there was speculation that the Ukraine crisis had spurred Russia to clinch the gas deal. Previously price had been an issue for Russia, but given the economic ramifications of the Ukrainian crisis, Moscow appeared to have run out of options, making China—with its huge economic potential—a far more attractive partner than before. Some suggested that the deal would barely cover Gazprom's costs.

While on paper the deal looked impressive, on closer examination it left much to be desired. In September 2014, Kyrgyzstan and China signed a deal to construct the fourth branch of the Central Asia-China gas pipeline. China also bought Manas Airport from Russia's Rosneft oil company, leading to speculation that

the economic impact of sanctions was forcing Russia to yield economic positions to China here too.

The dependence of the Russian economy on oil and gas revenues is particularly evident in Sino-Russian relations. Russia's increasing dependence on China (rather than interdependence) remains a cause for concern. Russia's energy strategy advocates increasing the share of Asia Pacific energy markets from 3 per cent to 30 per cent. Yet paradoxically, the 2009 National Security Strategy characterised as potential threats both a failure to reduce Russia's dependence on raw materials and the loss of control over Russia's resources. The idea of Russia as China's 'resource appendage' is frequently invoked.

RUSSIA has attempted to portray itself as a potential 'swing supplier' between Europe and Asia, but this is a difficult strategy because Europe has become quite an unstable market in energy terms. So the markets of East Asia, and China in particular, appear increasingly attractive to Russian energy companies. Yet the amount of gas going to China is still only around one-quarter of what Russia supplies to Europe. Russia risks becoming over-dependent on China in the energy sphere, while at the same time remaining a minor supplier in relative terms. This suggests the chances of Russia's becoming a 'swing supplier' between Europe and Asia are low. Russia has put all its energy eggs into one basket.



Chinese President Xi Jinping at a wreath-laying ceremony at the Tomb of the Unknown Soldier in Moscow during his visit to Russia in March 2013—his first foreign destination after taking office. His talks with the Russian leadership included discussions on energy supplies.

For some time now, despite the outward show of a ‘strategic partnership’ with China, Russians have been sceptical about the longer-term prospects of the partnership. Although the subject of the ‘China threat’ has been virtually taboo since the mid-2000s, more recently it has been referenced at least privately by officials. While successive official Russian speeches and documents—such as the Foreign Policy Concept—do not directly refer to a ‘threat’ from China, the potential threat is subsumed into the sphere of economics.

Economic and trade relations have become a ‘safe area’ from which to criticise Sino–Russian relations in Russia, given the sensitivity around direct references to any hypothetical

military threat. Critics often repeat phrases like ‘the level of relations, particularly in the economic sphere, needs to be improved’. Russian officials regularly make reference to the fact that Russia remains an exporter of raw materials (principally hydrocarbons and minerals) to China, while China finds in Russia an easy market for consumer goods and manufactured products. Reference is also made to the issue of Chinese migrants along the Sino–Russian border in the Russian Far East.

In Central Asia, the May 2015 agreement on cooperation between the Eurasian Economic Union and the One Belt One Road initiative (OBOR) signalled to many that Russia was again making concessions to China in the wake of the Ukraine crisis.

The OBOR is still a rather undefined project but it highlights China’s and Russia’s different approaches to regionalism. China seemed critical of the Eurasian Economic Union for its exclusive approach and for cutting off China from Central Asia.

Russia still needs investment and the credit lines that Chinese companies can offer. So far China has invested little and Chinese companies do not yet have the technological know-how to help Russia to exploit the new oilfields (for example in the Arctic) that it desperately needs. Given continued Chinese penetration of Central Asian energy markets, Russia may be squeezed even further.

In the wider Asia Pacific, Russia has attempted to diversify relations with other countries, such as Vietnam.

Yet China was able to restrict Russia's room for manoeuvre by interfering directly when Gazprom allegedly tried to develop an area with a Vietnamese oil company inside the so-called 'nine-dashed line' in the South China Sea, which China perceives as being inside its maritime boundary. Subsequently, Gazprom was forced to abandon the idea at the request of the Chinese authorities.

Russia needs to be careful not to align itself too closely with China in the Asia Pacific. This would risk alienating potential alternative partners like Vietnam, which fear China's military might and its territorial claims. In any case, Russian tactics and its use of the energy weapon work far less well in Asia than in Europe: many Asia Pacific countries already have significant diversity of supply and any increase in energy imports from Russia is meant mainly to reduce supply risk.

WHILE discussion of any military threat from China remains taboo, Russia has reinforced its Pacific Fleet and strengthened forces in the Far East close to the Chinese border. Tactical nuclear weapons are viewed by Russia as key to countering a potential threat from China, so while Russia does not openly acknowledge a military threat from China, plans have been made to offset it to some degree. The economic 'threat' remains far more tangible than the military menace.

Overall, Russia's position vis-à-vis China is to continue the economic relationship—which brings economic rents for Russian elites—but to maintain a policy of equidistance in the Asia Pacific and not to clash with China directly, whether along the Sino-Russian border, in Central Asia or in the global arena.

The political dimension of Sino-Russian bilateral relations has long been the locomotive of relations, without which it would be difficult to make progress in other areas. Both Moscow and Beijing have highlighted their perception that the economic relationship has long been lagging behind.

As one economist has pointed out, because the focus on increasing economic ties between the two countries is primarily a political project built on grandiose deals, China's economic downturn will make little difference to major projects. But China's longer-term position as a driver of global economic growth could now be called into question. China's emphasis on its internal development means it cannot waste resources on projects that are irrelevant to this objective.

Trade between the two countries has been declining. Chinese exports to Russia fell by 36 per cent in the first half of 2015 and trade has stalled at US\$90 billion, although the agreed target was US\$100 billion by 2015. Further, the economic slowdown means less demand for key Russian goods—such as metal and chemicals.

In the Russian Far East, trade between Russian border provinces and Heilongjiang and Jilin has more than doubled between 2009–13. Yet China complains that infrastructure, transport and logistics remain woefully underdeveloped, which has slowed the pace of cross-border cooperation. Chinese researchers attribute this to Russia's 'conservative attitude towards Chinese participation in the development of Siberia and the Far East'.

There are signs too that China is irked by the securitising discourse in Moscow that portrays Russia as a resource appendage of China. Chinese

academics recently told their Russian counterparts that this image doesn't square with reality and urged Russians to be more 'objective': China accounts for only 10 per cent of all Russian oil exports. By contrast, Russia's gas exports mainly go to Europe, while China has imported virtually no natural gas from Russia. Tensions in the relationship clearly remain.

AT THE ideological and symbolic level, Russia and China can take comfort from each other in the shared discourse on 'anti-fascism' evident in their joint commemoration of the 70th anniversary of the Chinese victory in the War of Resistance Against Japan. But joint naval exercises carried out at the end of August in the Sea of Japan were mainly about confidence building, rather than a guide to any strategic intentions or an alliance. In a May 2015 report by the influential Russian International Affairs Council, Chinese researchers hinted that the current 'comprehensive strategic partnership' could be 'transformed into an alliance without lengthy preparation and without having to define mutual obligations'. Yet a fully-blown alliance between the two seems unlikely.

For now, it appears that Russia's Asian pivot is still all about Beijing, despite attempts at diversification. The debates that raged in the 1990s and in the early Putin years about the extent to which Russia should hitch its wagon to the Chinese economic locomotive have largely subsided. But as the Chinese locomotive loses speed, Russia may find itself wishing it could change trains. **EAFC**

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Uncertain times cast a cloud over happiness in Asia

TAKASHI INOGUCHI

THE new normal of a global economy seems to be that happiness is harder to grasp for ordinary people. There are two major reasons for this.

First, the economic outlook is growing more difficult to predict. Japanese think tanks, for example, consistently fail to predict the economic outlook for Japan, such as the annual growth rate and the yen–US dollar exchange rate. If people cannot anticipate when an income rise is coming or if it is stalled, decisions about investment and saving or about

consumption and production become more difficult. It is also more common to see government attempts to lift growth fall flat. Far from experiencing tangible economic gains and a modicum of economic happiness, ordinary people find themselves more and more economically insecure. The changing macroeconomic landscape has substantial implications for possibilities for growth and attaining happiness in Asia.

Second, these hopes are buffeted by big structural changes inside the region, like demographic change, and shocks from outside like quantitative easing in the United States, Japan and

the European Union.

Yet when we ask people in Asia and around the world how happy they are, how do they respond?

The 2014 Pew Research Center survey into global happiness covered 43 countries. Responses were collected on a ten-point scale with a score of 10 being the happiest and one the least happy; individuals who expressed a score of seven out of 10 or are rated as ‘happy’.

Wealthy countries like the United States, Germany, the United Kingdom and Spain registered high happiness scores, with the percentage of people with a score of seven or above coming

in at 65, 60, 58 and 54 per cent respectively. But several emerging market countries—including Mexico, Israel, Vietnam, China and India—were no less happy, with scores of 79, 75, 64, 59 and 44 per cent respectively. The Asian countries represented in the survey included Vietnam, China, Indonesia, Malaysia, Pakistan, South Korea, India, Japan, the Philippines, Thailand and Bangladesh. The rated happiness of their populations ranged from 64 to 34 per cent.

While the Pew survey suggests that money or living standards might matter the most among all the determinants of happiness, there are many other factors that influence happiness. The survey found that women were generally happier than men, married men were on average happier than unmarried ones and Asians were generally more optimistic than the citizens of other regions. This confirms one of the findings of Pew surveys in the early 2000s, which found that the gender gap in happiness is positive and very large in Asian countries. The average gender gap in happiness in Asian societies, including Pakistan, Japan, the Philippines, Vietnam, India, Indonesia, Uzbekistan, China and South Korea, was 9.4 percentage points. In comparison, the gender gap in happiness was just 4 percentage points in the United States.

The AsiaBarometer is another collection of happiness surveys from the early 2000s that specifically targeted 32 Asian societies and their neighbours, Russia and Australia, with the United States included as a reference point. The surveys provide an overall picture of happiness across Asian sub-regions.

According to the AsiaBarometer, the happiest Asian sub-region is South Asia, second is Southeast Asia, third is Central Asia and fourth is East Asia.

What is fascinating about this result is the counterintuitive reverse positions of East and South Asia in terms of income and happiness. This suggests that wealth is not the dominant factor in determining happiness in Asia, as East Asia is overall the richest and most developed Asian region.

One possible explanation as to why poorer nations in Asia are happier is religion. South Asia is the most religious of the four subregions. The world's largest Hindu populations live in India and Nepal, and the world's largest Muslim populations—more than 550 million people—reside in South Asia, especially in India, Pakistan and Bangladesh. East Asia, on the other hand, boasts the highest income but is the least religious of the four subregions. On this measure, it also is the least happy.

Recent research sought to gain insight into similar cross-country comparisons by examining differences within and between nations at the regional level. In a time of deep and complex globalisation such diverse metrics are of crucial importance for understanding happiness.

Surveys were conducted in 12 societies in Asia: Japan, Taiwan, China,

... while there was dissatisfaction with income in places such as India, China, Hong Kong, Macao and Taiwan there was wide satisfaction with family

Hong Kong, Macau, India, Pakistan, Malaysia, South Korea, Thailand, Myanmar and the Philippines. Only a single question was asked: 'How satisfied are you with the following aspects of daily life: family, food, housing, health, income, job and neighbourhood?' Respondents were asked to choose one of the following options: very satisfied, satisfied, neither satisfied nor dissatisfied, dissatisfied, very dissatisfied. The difference is calculated between the top and bottom quartile in these aspects of daily life for each society.

Curiously, while there was dissatisfaction with income in places such as India, China, Hong Kong, Macao and Taiwan, there was wide satisfaction with family. One relevant issue is the extent to which extended family members live in adjacent neighbourhoods. Another is that in these countries wives tend to share household chores with husbands and maids, whereas in the nuclear family households of South Korea and Japan, husbands commonly avoid their share of housework.

The picture of Asia's happiness that emerges from this research seems to be shaped by two powerful forces: demographic change and quantitative easing (QE).

A nation's population can be divided into productive and non-productive members. The former refers to the working age population, typically between 15 and 65 years of age, whereas the latter is dependent on support—typically those below 15 and above 65 years. When the non-productive population is divided by the productive population the resulting 'dependency ratio' indicates how effectively the productive population can sustain the non-productive population. When the ratio is below one, there is said to be

‘demographic onus.’ When the ratio is above one, there is ‘demographic bonus.’

In several Asian countries the process of development is steadily transforming demographic bonuses into demographic onuses. South Asian countries are on the whole still in the early stage of development and have demographic bonuses. The developed nations of East Asia, on the other hand, are increasingly burdened by demographic onus, which puts pressure on income growth and intergenerational equity.

Japan’s low reproductive rate has prompted substantial policy changes to motivate young people to have more babies. From a record low of 1.26 in 2005 the fertility rate has climbed back up to 1.46 in 2015. But the number of women of childbearing age in Japan is still said to be far below the number needed for maintaining the reproductive rate at level that would sustain the current population size.

Curiously, although highly educated Japanese women do not emigrate on the same massive scale as their South Korean counterparts, they do make up about 80 per cent of Japanese-origin employees in UN institutions. This suggests that highly educated Japanese women are unhappy at home. To improve the birth rate, policymakers may need to come up with ways to make life in Japan more enjoyable for women, perhaps by encouraging men to do their share of the housework!

The second pressure affecting happiness in Asia is the central banks’ policy of QE because of its unpredictable effects on the economy. QE is a policy tool that is used to promote growth where there is persistent deflation of the economy by aggressively expanding the money supply. The United States adopted it first in the wake of the collapse of the



Children dressed as Hindu gods for a religious festival. Religiosity is important in life satisfaction.

US financial bubble in 2008. Japan followed in March 2013 in an attempt to end two decades of deflation.

Japanese stock prices have subsequently shot up, hitting the 20,000 yen mark in early 2015. The lower yen–US dollar exchange rate has encouraged the sales of manufacturing companies abroad. But QE has also aggravated already astronomical government deficits. While the anti-deflation measures are necessary to promote growth, QE could lead to a further downgrading of the Japanese government’s fiscal position, with potentially severe consequences.

The uncertainty surrounding these economic circumstances is likely to put downward pressure on happiness in Japan and its neighbours because people don’t like uncertainty. Some curious evidence for this has emerged from research into China’s experience of growth. In the early days of China’s period of economic liberalisation, people’s happiness took a tumble even as growth rates shot up, in part because people experienced enormous, rapid change over which

they had very little control.

Asia’s circumstances provide interesting insights into happiness more generally. Happiness does not seem to equate directly and exclusively with wealth—the higher-income sub-region of East Asia does not seem to be the happiest whereas the lowest-income sub-region of South Asia is not the least happy. Many other factors, like high religiosity and intimate family connections, seem to play an important role in determining people’s life satisfaction. Context may be everything, with the new reality of a global economy presenting a range of challenges to the happiness of the well-off that need to be negotiated. **EAFQ**

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Indonesia's foreign policy takes an economic turn

NOBUHIRO AIZAWA

SINCE President Joko Widodo (Jokowi) took office, he has been clear and consistent in explaining his foreign policy priorities, enunciating the principle of putting 'national interest' first. Remarks such as 'Having many friends and losing—what is the point?' suggested to concerned foreign observers that Indonesia was turning inward and moving towards protectionism.

Putting national interest first is to be expected in a leader's foreign policy. What has been notable is the way that Jokowi has defined 'national interest'. Put simply, Indonesia's policy has shifted from one based on values to one based on economics.

In his first year Jokowi has seized foreign media attention by sinking illegal fishing boats, executing foreign drug offenders and advancing the concept of Indonesia as a maritime fulcrum between Indian and Pacific Ocean powers. But his strongest perspective is making the economy the defining factor of national interest.

The changed approach was signalled in Jokowi's first speech on foreign affairs, at the Association of Southeast Asian Nations (ASEAN) summit in November 2014. While agreeing on ASEAN's importance, he emphasised that 'We have to make sure the national interest cannot be lost.'

He elaborated to journalists on the way back to Jakarta. Referring to his predecessor's 'million friends but zero enemy' foreign policy, he said that 'having a lot of friends' implied having

a lot of profit, and suggested that the economy not only defined the national interest, but friendships too. He restated the principle before visiting Singapore in July 2015, saying that 'National interests are the motivation for cooperation with other countries.'

This economic-led approach has not been confined to rhetoric but also shown by the amount of precious presidential time Jokowi has devoted to the idea. Apart from multilateral conferences, his bilateral visits have included Malaysia, Brunei, the Philippines, Japan, China and Singapore, a schedule that covered the top three countries in terms of foreign direct investment, exports and imports. By comparison, former president Susilo Bambang Yudhoyono—known as SBY—gave priority to neighbours like Malaysia, Singapore, Australia, Timor Leste and New Zealand, and to key security partners like the United States.

The policy shift is made clearer by comparing the idea at the centre of SBY's approach. In his first speech on foreign policy in May 2005, SBY described Indonesia as 'the world's third largest democracy . . . where democracy, Islam and modernity go hand-in-hand'. Indonesia's strategy was to raise its international status by upholding values such as human rights and democracy, and by playing an active part in global governance through institutions like the United Nations (UN). ASEAN was seen as a means of achieving greater leverage for Indonesia's diplomacy—ostensibly, SBY would speak as *de facto* leader

for all of Southeast Asia. Thus there was always an incentive to consider political or economic development in a regional context, a platform that would make Indonesia more important globally. The economic aspect of national interest was very weak in 2005.

In 2004–2005, when SBY began his first term, the Bush administration's war against terrorism was at its height, with US military operations in Iraq and Afghanistan. The Bali bombings and Jemaah Islamiah's activities showed that Indonesia also had a security problem. With security concerns dominating international politics, preventing foreign political or military intervention was at the top of Indonesia's diplomatic agenda. Its strategy was to emphasise that it was not a country of extremists, but a nation of moderate and modern Muslims and a successful democracy.

THIS was also why SBY projected its image in terms of values rather than the economy. In contrast, Jokowi came to office during a major economic power shift. He had to project an image of Indonesia as a careful economic player that would not easily fall behind.

Three elements stand out when we examine the new foreign policy.

First is the Indonesian people's frustration in the final years of the SBY administration. Although his foreign policy can be credited with raising Indonesia's international profile, leading ASEAN into a more reliable regional architecture and

enhancing the grouping's importance through initiatives such as the East Asia Summit, diplomatic credit for these achievements was given very much personally to the leadership. The intangible assets were left unnoticed.

Unfortunately, towards the end of his presidency, SBY's 'million friends and zero enemies' policy sounded more like an excuse to avoid taking responsibility to advance domestic demands than anything else.

Jokowi and his team were aware of these frustrations. It appeared that the new president's plan to overcome the shortcomings of his predecessor's platform was to share the diplomatic dividend with the people. The easiest way to do that would be by sharing the economic benefits of trade, investment and employment.

THE limitations of value-based or 'democracy' diplomacy has been the second key factor in changing foreign policy. One milestone of SBY's diplomacy was establishing the ASEAN charter. This not only institutionalised the association and raised its credibility but, with strong impetus from Indonesia, ASEAN also embraced the idea of shared political values: human rights and democracy. Winning agreement from the politically diverse membership was a significant achievement—a rare case of consent that matters such as democracy and human rights were to be concerns of member states in the first instance. This was not just an ethical decision but aimed to create a bulwark against external intervention in regional affairs.

Shared-value diplomacy also had a strategic purpose, for it was designed to create greater international leverage both by enhancing ASEAN's strategic value and increasing Indonesia's global status as the de facto leader.

But the limits of value-based diplomacy became clear after the coup in Thailand in May 2014, after the ASEAN charter had taken effect. As the charter prohibits the acquisition of power by extra-constitutional means, the coup violated its principles.

SBY and then foreign minister Marty Natalegawa demanded that Myanmar, the 2014 ASEAN chair, issue a statement criticising or expressing serious regret about the events in Thailand. They did so in vain. On the contrary but unsurprisingly, Myanmar was quick to acknowledge the Thai junta and the importance of the military's need to intervene at certain times. Cambodia followed suit, acknowledging the junta because it was endorsed by the Thai monarchy.

Failure to condemn the Thai coup weakened the charter and Indonesia's diplomatic influence in creating it. It showed the limits of what Indonesia, despite being the group's de-facto leader, could hope to achieve through its diplomacy in ASEAN and through value-based diplomacy.

Third, the shift towards a greater economic focus fits within the current administration's broader views on global dynamics and a shift in economic power to the East. Jokowi's statements at the East Asia Summit in November 2014 make this view clear: '[t]he centre of global geo-economy and geo-politics is currently shifting from the West. . . . The East Asian region is the most dynamic in terms of economy. Almost 40 per cent of world trade is taking place in this region.' At the 60th Asia–Africa Conference in April 2015, Jokowi elaborated on this view, saying that 'we must build a new global economic order that is open to new, emerging economic powers' and not one based only on institutions such as the World Bank, International Monetary Fund and

Asian Development Bank.

As Jokowi's perception of the regional and global order is fundamentally anchored in economics, it was natural for him to see Indonesia's national interest in the same terms. The aim is to ensure that Indonesia's economy is in the winner's circle as global dynamics change. Looking forward, there is no hint that Jokowi's foreign policy and its economic focus will change.

OPTIMISTS and pessimists alike will agree that this focus is good for Indonesia's prospects. Optimists consider that, with Indonesia's demographic bonus, there is great potential for it to be the next Asian growth engine. Emphasis on economic national interest will therefore promise a gain in Indonesia's global political power. Pessimists will see Asia's growth slowing and protectionism setting in. In this scenario, the government would gain credit for seeking to secure Indonesia's economic interest by crafting a friendly regional and global environment.

The economic turn in foreign policy is more structural than based on leadership. Given how similar Jokowi and Prabowo Subianto's comments were in pre-election debates on foreign policy, it seems likely that even if Prabowo had won the presidential election, he would have defined 'national interest' in similar terms. Domestic economic benefits will continue to be electorally popular and critical in Indonesia and define what is and isn't in the national interest. As a result, it will continue to drive Indonesia's foreign policy—at least until the next turn. **EAFO**

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Economic embrace is warm enough to thaw the politics

SHIRO ARMSTRONG

CHINA and Japan are locked into each other economically. The bilateral relationship is the third-largest in the world, with a US\$340 billion trade relationship in 2014. China is Japan's largest trading partner, accounting for one-fifth of its trade, and Japan is China's second-largest trading partner after the United States. Japan is the largest investor in China, with a stock of direct investment at more than US\$100 billion in 2014. Compare that to the next largest source, the United States, which has at most a direct investment stock estimated at US\$70 billion in China. But even those massive trade and investment figures do not demonstrate just how intertwined the two Asian giants are.

The importance of the Japan–China relationship is beyond bilateral. The relationship is embedded in a deeply integrated region where supply chains and thick trade and investment flows with third countries mean that there is another dimension to the interdependence. Much of Japanese investment in Southeast Asia relies on assembly and, increasingly, value add, in China. Trade and investment are beyond bilateral in East Asia and interdependence in the region has been achieved with political relations often lagging behind economic relations. Countries committing to openness for their development has meant that past political enmity and unresolved history comes a distant second to the interest of prosperity.



PICTURE: EPA / AAP

Workers on the assembly line at the Sichuan FAW Toyota Motor Company's Chengdu plant. Japanese investment has brought capital, technology, know-how and jobs to China.

Japanese manufacturing has had to shift offshore to remain competitive in the wake of the rapid yen appreciation in the 1980s after the Plaza Accord and the stagnant domestic economy and shrinking population later in the 2000s. Much of that capacity went to China, but Japan also invested in other nearby countries like Vietnam. This gave birth to the often quoted 'China plus one' investment strategy. Some may have thought that this was a response to the risk of over-exposure in China—with which Japan was not getting along politically—but this was simply a normal risk diversification strategy.

Disruptions to trade are costly even though supply and procurement of goods are done at arms-length and alternatives can be found when necessary. The Fukushima disaster in 2011 demonstrated how quickly supply chains can adjust within and between countries. But investment involves closer and more intimate economic relations than trade, with the setting up of factories or businesses in the host country involving sinking large capital expenditures, hiring local labour and developing business and consumer relationships in the foreign environment.

The US\$100 billion investment

from Japan—a figure that accounts for depreciation and divestment over the years—has brought jobs, technology, know-how and capital to China. Growth in that investment is slowing due to rising labour costs (as Rumi Aoyama discusses on page 33) but investment into higher value-added manufacturing and services is becoming more important. Chinese investment into Japan is in its infancy, with a stock of close to US\$600 million in 2014, yet it is growing rapidly from a low base of just US\$90 million a decade earlier. Much of Chinese investment into Japan is in commercial real estate, but Chinese investment there is also seeking to acquire technology and Japanese know-how. For China, Japan's technological prowess is indispensable as it continues to climb the value ladder towards a high-income country.

People-to-people ties are strong, have a long history and provide ballast to the relationship. That is unsurprising given the two countries' geographical and cultural proximity but is often overlooked or underappreciated. More than half of all 184,000 international students currently in Japan are Chinese, with the proportion averaging 60 per cent over the past decade. China is the second-largest destination for Japanese students studying abroad, after the United States. Japanese students are the third-largest cohort of foreign students in China. And 2.4 million Chinese tourists visited Japan in 2014, with another 5 million waiting for visas. Yet polls in both countries report a very high proportion of citizens—more than 90 per cent of respondents in some years—with unfavourable views of the other country.

China and Japan have achieved this level of economic interdependence despite the political mistrust between

the two countries, the unresolved history and politically turbulent relationship. Often characterised by the soubriquet 'hot economics and cold politics', the strong economic ties and awkward politics are not mutually exclusive. So far the cold politics have not disrupted or damaged the economic relationship to any significant degree and the hot economics seems to have constrained the cold politics.

Relations have been at a low point in the past few years but trade and investment have kept up. Earlier on, during former Japanese prime minister Junichiro Koizumi's leadership between 2001 and 2006, relations were also at a low, with leadership visits suspended and large-scale anti-Japan protests in China in 2005. Yet the economic relationship was expanding rapidly, with trade growing rapidly from US\$85 billion in 2000 to US\$211 billion by 2006.

When Shinzo Abe was elected prime minister for the first time in 2006, his first state visit was to China, 'breaking the ice' in the relationship.

So far the cold politics have not disrupted or damaged the economic relationship to any significant degree and the hot economics seems to have constrained the cold politics

It's likely that China would not have been Abe's first choice, but repairing the relationship was a top priority and a policy he had campaigned on. It was the importance of the economic relationship that drove the political imperative. Subsequent state visits by leaders on both sides helped to thaw and melt the ice.

In China, the official mood towards Japan improved and there were no protests until relations hit rock bottom after the Senkaku/Diaoyu islands flare-up in 2012. In Japan, no leader, including Abe in 2006 or 2007 and Taro Aso later on, visited Yasukuni until Abe did so in 2013, when relations were already at a low point and his domestic popularity high. But even in bad times things did not get out of control because there is too much at stake.

After an icy meeting between Chinese President Xi Jinping and Abe at APEC in November 2014, the two leaders had a warmer meeting in April 2015 in Jakarta on the sidelines of the Asian–African Conference. Xi appeared in front of a Japanese delegation led by Toshihiro Nikai, chairman of Japan's ruling Liberal Democratic Party's General Council, in May 2015, receiving a letter from Abe and also announcing his intentions to improve relations. The ongoing China–Japan–Korea Summit, which has continued to bring leaders together each year since 2008, will be another chance for Abe and Xi to meet and develop trust.

Things are looking up again for political relations, encouraged on both sides by overwhelming common economic interests. **EAFO**

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Could Sino-Japanese competition benefit Asia?

PICTURE: AAP

HE PING

SINO-Japanese relations haven't yet escaped from their most difficult period since the normalisation of diplomatic relations. Historical and territorial issues mean that mutual perceptions between these two Asian powers are still in the doldrums. In the context of a shifting balance of power and disagreement over specific regional issues, some Sino-Japanese competition seems inevitable. But how will this affect the region?

China and Japan are now competing with each other in providing public goods for the region. From a positive perspective, this competition could mean that Asia Pacific countries enjoy a greater choice when forum shopping and an extended menu of regional public goods. For instance, the Japan-dominated Asian Development Bank is undoubtedly the primary rival of the China-proposed Asian Infrastructure Investment Bank. On the other hand, in response to the rapid progress of the One Belt One Road framework initiated by China, the Abe administration has also coined the concept of 'Quality Infrastructure Investment'. But this could also lead to another spaghetti bowl of overlapping regional governance institutions.

Competition for regional leadership actually provides an opportunity for China and Japan to stop the ever-accelerating 'appreciation deficit' felt by both. In the past few years, in both countries there have been profound changes in assessments of the importance of bilateral relations



Tea merchants and their laden camels pass the Bell and Drum Tower in Zhangye, northwestern China. The ancient Silk Road has a modern counterpart in Xi Jinping's One Belt One Road framework.

and of the other nation. At the risk of oversimplification, it may be argued that Japan's status in the Chinese worldview is constantly declining. Japan is less and less important to China in many Chinese people's eyes. Since the reform period Japan had provided a mirror through which to judge China's economic growth and social development, but this is gradually becoming a historical memory.

It's time for both Japan and China to re-evaluate the counterpart's neighbourhood diplomacy and regional achievements. Throughout its post-World War II history, Japan

has offered regional public goods of various kinds that suited its situation at the time. This was critical to Japan's efforts to promote regional integration and to enforce its own diplomatic strategy as a regional power. China may draw important lessons from Japan's experience such as disaster relief assistance, water management, medical diplomacy, and food information sharing system, in terms of its basic human needs orientation, grass-root and face-to-face approach, concerted efforts by multiple stakeholders, and the "best-shot" and "weighted summation" practices. At the same time, China's

own performance may serve as a good reference for other regional partners as well, Japan included. Although the existence of 'best practices' is an open question, we can certainly welcome new practices and better practices.

When it comes to regional leadership, money is not everything. As the historical experience of the British–American power transition shows, it takes some time for comprehensive national strength, and particularly economic power, to translate into the institutional advantage of setting agendas and building institutions. The accumulation and effective exercise of leadership intelligence demands even more time and requires long-term planning. Therefore, Japan will likely continue to utilise its comparative advantage or first-mover advantage in promoting regional cooperation by maintaining, and even increasing, investment in institutional regional public goods. It is also in the interests of Japan's neighbours to learn from its experience in the spirit of healthy competition, mutual benefit and complementarity to jointly promote the prosperity and stability of the region.

Scholars like Joseph Nye have correctly pointed out that to build 'alliances, partnerships, and institutions' is the first pillar in creating and maintaining 'smart power'. Traditionally, China has been short of both the willingness and capability to engage in regional agenda-setting, rule-making and institution-building. But recently this has been changing. To build a community of shared interests, destiny and responsibility, China is even welcoming other countries to 'free ride' on its growth. Beijing is catching up with Washington and Tokyo in terms of hard power. The cooperation

and competition for regional leadership offers an arena to practise and sharpen its soft power and smart power.

It is imperative that both China and Japan re-interpret the importance of functional cooperation in regional integration. There has been an undeniable decline in Sino–Japanese cooperation and coordination in many functional areas during the past few years. Functional cooperation itself, either in quantity or in quality, moves at a sluggish pace as the perceived benefits of this cooperation decrease. This also reduces the spill-over effects from functional cooperation, as collaborative efforts are only able to continue in niche sectors, are incapable of rising to higher levels and are limited to ministerial contact. Cooperation in 'low politics' is less and less regarded as a necessary political glue.

Ultimately functional cooperation still exerts a cumulative effect on

Hopefully, the interconnection and overlap of these different cooperative mechanisms will lead to their becoming institutionalised, and eventually contribute to political reconciliation and regional integration

regional identity. It can be carried out at the sub-national and super-national level, minimising tensions over territory, natural resources and other sensitive issues, as we have seen in the cooperation in the Mekong region and the pan-Yellow Sea region. The aggregation and consolidation of common practices at different levels of cooperation could take the region one step towards a verbal or written consensus. Hopefully, the interconnection and overlap of these different cooperative mechanisms will lead to their becoming institutionalised, and eventually contribute to political reconciliation and regional integration.

For China, perceptions of Japan are made up of intertwined identities and images: a former invader and aggressor, a counterpart of long-time exchanges, a model of success, a source of learning and assistance, an indispensable neighbour, and an existing regional power and potential competitor in the same region. Cooperation and competition for regional leadership adds more variables to this complicated and delicate bilateral relationship. China is still adapting and learning how to use its own increasing power. At the same time, Japan and other countries are also coming to terms with and accommodating China's rising power. There is every reason to wish, for all of these processes, a peaceful, constructive and sustainable future. After all, the Asia Pacific kitchen is big enough to accommodate two chefs.



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What's pushing Japanese firms out of China?

RUMI AOYAMA

EARLY in 2015, Japanese companies, Panasonic and Toshiba, announced that they would stop producing television sets in China. As Japan continues to decrease its investment in China, the two multinational corporations' partial exit seemed to underscore an overall trend of Japanese firms withdrawing from China. On 23 February 2015, Nikkei News reported that Citizen Watch Company had suddenly closed down its parts factory in Guangzhou, laying off all 1000 employees there.

The Sino-Japanese relationship has hit its worst downturn since normalisation of diplomatic ties. High-level dialogues, including summit talks, have been suspended since the Japanese government nationalised the Senkaku/Diaoyu islands in September 2012 and Prime Minister Shinzo Abe visited Yasukuni Shrine in December 2013. With its One Belt One Road strategy in 2013, Beijing launched its own diplomatic offensive to improve ties with neighbouring states, resuming intergovernmental contacts with Japan as well. But China has not shown any sign of compromise on the history or the Senkaku/Diaoyu issues. Meanwhile, Japan is moving toward its alliance relationship with the United States and has been developing a new collective security regime. There remains a deep-rooted mistrust between the two sides in both political and security areas.

It was against this backdrop that Japanese firms began to leave China.



PICTURE: FREDERIC J. BROWN / AFP PHOTO / AAP

Camera-shopping at a tech mall in Beijing. Japanese multinational companies expect sales in the expanding Chinese domestic market to continue to grow.

Despite the political predicament, it is conditions in the labour market that have been the most important factor affecting these developments in the economic relationship between the two countries. Since large- and medium-sized corporations alike still yield profit in the market, the withdrawal of Japanese firms from

China does not indicate dwindling business opportunities for all Japanese companies in the mainland.

Japanese firms entered China ahead of other countries after Beijing's reform and opening-up policy in the late 1970s. According to the Chinese Ministry of Commerce, by the end of 2012, 23,094 Japanese firms had

set up in China. The current Chinese Ambassador to Japan, Cheng Yonghua, evaluates these firms' investment activities in China highly, stating that 'by May 2015 Japanese accumulated investment in China had reached US\$100.4 billion, making it the first country to surpass US\$100 billion.'

But recently circumstances have changed for many Japanese firms, which have been in the Chinese mainland market for nearly four decades. Annual Japanese investment in China has decreased since 2012, when it peaked at US\$7 billion. The amount in 2014 was US\$4.3 billion, 38.8 per cent lower than the previous year. The business model in China has also started to change. Previously, foreign firms produced goods in China using abundant and cheap local labour, and sold their products to foreign markets. But increases in labour costs (particularly as a result of the 2008 labour contract law) have affected the profitability of firms seeking good returns. A survey conducted by Japan External Trade Organization (JETRO) shows that 83.9 per cent of Japanese firms believe that wage increases are a significant problem for their business activities in China.

On the other hand, expectations for China as a consumer market have been rising steadily among Japanese firms as Chinese purchasing power has increased dramatically in tandem with its booming economy. In 2014 the Japan Bank for International Cooperation raised its yearly evaluation of China from the fourth to third most promising destination for business activities in the mid-term (approximately three years in the future). Expectations for local market growth and current local market size were the top two reasons for the high ranking. Income growth has inevitably increased running costs, but at the

same time, Japanese firms also see such growth as a positive factor for market expansion.

So while the amount of new investment from Japanese firms is decreasing, the Chinese market remains attractive.

Regardless of the political downturn, Japanese firms fare relatively well in the Chinese market. The Japanese Ministry of Economy, Trade and Industry notes that the total amount of sales by Japanese companies in China reached 36.4 trillion yen (approximately US\$300 billion) in 2013 (over 44 trillion yen if Hong Kong is included) only one year after the nationalisation of the Senkaku/Diaoyu islands.

Japan's core businesses are gaining footholds in China. Sales volumes in 2013 for automobiles, data communication and electronic industries were 9.4 trillion, 3.9 trillion and 2.2 trillion yen (approximately US\$80 billion, US\$30 billion and US\$20 billion) respectively. Japan's multinational corporations, such as Toyota, Nissan, Honda, Hitachi and Panasonic, sell products valued at

For Japanese companies, China's role has changed from 'the factory of the world' to 'the market of the world', as Chinese wages and consumption trend up

more than 1 trillion yen in this market, and they only expect that to grow.

Most importantly, Japanese firms believe that the Chinese market will continue to expand, and they are confident about generating profits there. In JETRO's yearly survey in 2014, 64.1 per cent of Japanese firms replied that they expected profit from sales, an increase from 60.7 per cent of firms on the year before.

The idea that all Japanese firms are on the way out of China is a myth. For Japanese companies, China's role has changed from 'the factory of the world' to 'the market of the world', as Chinese wages and consumption trend up.

China's rise has forced structural change within the international community, and with it a deteriorating political and security relationship with Japan. Realists argue that Sino-Japanese confrontation in the political and security realms will likely adversely affect their economic ties as well. In contrast, liberals predict that mutual economic dependence between the two will eventually contribute to stability in their political relationship.

It is true that the politics of the bilateral relationship have not always been positive for Japanese firms operating in China. Yet Sino-Japan relations are not easily described by either the realist or liberal paradigms. The relationship, characterised by 'cold politics, hot economics', is an important case study in international relations in an era of globalisation, the nature of which is unprecedented. For now, confrontation in the political and security sphere continues to appear compatible with deep interdependence in the economic sphere. **EAFO**

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Seapower: Chinese naval vessels in line astern.

From modernisation to great-power relations

ZHANG YUNLING

A SIA is changing. After World War II and the end of Japanese military expansion, many countries fought for and won their independence in Asia. In 1949 China ended its internal disorder by establishing the People's Republic of China. But Asia was divided because of the Cold War, and these divisions continued until the Soviet Union collapsed. As Asian countries embarked on their own development processes, they began to reshape the region. Economic integration based on market forces gradually extended

to more and more economies. Normal state-to-state relations between Asian countries developed only gradually after the Cold War, but multi-layered sub-regional cooperation mechanisms have continued to bring Asian countries closer.

Japan's modernisation started after the Meiji Restoration in 1868, and it recovered in the post-World War II era. For South Korea and many Southeast Asian countries, the modernisation process is quite new. A key feature of China's new modernisation, after reform began in 1978, has been participation in regional and global production market

networks, which now makes China an integrated part of the regional and global community. Asian countries, despite political differences, share a common interest in open markets and a stable, secure environment for continuing modernisation.

The Asian miracle has been based on open policies that permitted integration into the global trade system. The key has been to create a coordinated link between business and government that allows a market network to develop among different economies. In the flying geese model, with Japan as the leading goose, the 'Four Dragons'—Singapore, Hong



Maritime confrontation: viewers in Tokyo watch a TV report of a collision between a Chinese fishing boat and Japanese coast guard vessels in 2010.

Kong, Taiwan and South Korea—followed and then so did the other economies like ASEAN members and China.

Although Japan was defeated in World War II, it was able to rebuild by drawing on the foundations of its early industrialisation and modernisation, including technological expertise, an educated population and organisational skill. The United States forced Japan to change its political system, but it also supported Japan's economic recovery and further modernisation.

The Four Dragons, or Tiger economies, closely watched what

happened in Japan and tried to learn from it. They opened their markets, tried hard to attract investments from the outside—especially from Japan and the United States—and targeted Western markets. These East Asian countries started from a lower level, but they upgraded their technology in order to catch-up. As more and more economies joined the production chains created by foreign direct investment, a network based on a changing division of labour developed in Asia.

The rise of Asia's economies has brought new challenges to the world. China and India alone account for

almost 40 per cent of the world's population. Modernisation has significantly increased their demand for food, water, energy and natural resources, and will continue to do so. The catch-up model has added to pollution and global climate change. This creates new challenges and issues of sustainability that all countries will need to address.

Considering the size of Asia's population and speed of its modernisation, the challenge of social transition is very serious. The West has experienced industrialisation and modernisation for 200 years. In Asia, the process is moving too fast. How do we manage the demands and pressure from people who want things to improve as quickly as possible? Individual governments will have to find something new, rather than just following existing patterns. New technology helps people to

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Quarterly

The intergenerational challenge

live new lives, but it is not an easy solution. For instance, China now consumes 40 per cent of the world's cement just for construction and this demand continues to rise. Similar demand pressures exist in other Asian countries.

China's economic rise has brought both benefits and challenges. While all countries are benefiting from the fillip that China's fast economic growth has provided to the global economy, countries are also working on how to deal with competition from China. But as the country develops and the old growth model becomes unworkable, China will not stand still by using the advantage of cheap labour. It will upgrade its technology and invest abroad. This will create opportunities elsewhere.

There is also a security dimension to all this. People are talking about China's rising power and its future behaviour. While China is rising to big-power status, it has many unsolved problems with its neighbours.

China's transition process is still very long. Peace and development will be needed for a very long time. If anything happens now—not just on a large scale, but even if there is a smaller confrontation with a neighbour—it would seriously damage the whole process. China's leaders need to think about the country's vital priorities and the costs of war. Many problems are emerging. In the past they could be easily managed, but they could become more difficult in the future. Generally, the top leaders are aware of the situation and know how to manage it. The danger is that if something should happen suddenly and social pressure became too strong, leaders may struggle to find a balance.

The dispute with Japan over the Senkaku/Diaoyu islands is one example. In September 2010—when

the crew of a Chinese fishing vessel were detained after colliding with the Japanese Coast Guard outside of China's agreed fishing area—what made the Chinese angry was that the Japanese government announced it would use domestic law to punish the Chinese fishermen. The implication was that Japan totally refused to recognise the existence of a dispute over the islands and treated the incident as a Japanese internal matter.

Japan generally handled the fishing boats carefully and released the fishermen quietly. But, during the election, Japanese politicians used the issue to garner more domestic support, holding the fishermen until after the election. In the face of a rapidly developing diplomatic crisis, Chinese leaders were also under great domestic pressure to respond strongly. If the Japanese had released the fishermen earlier and not announced that they would be punished under domestic law, the result would have been quite different.

China was in fact very restrained. An early morning summons of the Japanese ambassador reflected, to some extent, Chinese culture: in a time of urgent crisis we should not let you sleep well. It shows soft pressure. But there was very high pressure on the Chinese leader to ensure a

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quick solution. A delay of one day more would have increased pressure on China. In the end, the crisis was managed well enough to allow a leaders' meeting during the Asia–Europe Meeting summit in October that year.

The real challenge for Sino–Japanese relations now is how to manage the historical reversal of the power balance between the two countries. In modern history, Japan used to be stronger than China. A strong Japan invaded China and many other Asian countries. But now China's economic size is much larger than Japan, and the gap will continue to widen. For Japan, it is necessary to adopt a policy of living with a rising China. At the same time, China needs to accept Japan as what Ichiro Ozawa would call a 'normal country'—with all the instruments of foreign policy at its disposal, including a modern and independent Self-Defense Force. Sino–Japanese relations must be based on mutual understanding and cooperation.

While history issues need more time to be solved, China and Japan can and should continue to cooperate on both bilateral and regional economic cooperation, which is beneficial to both sides for generating new growth. The two nations should sit down to discuss the sensitive and risky challenges caused by their disputes and establish risk management schemes. Such open dialogue on challenges in both traditional and non-traditional security areas is critical to the prosperity of both countries. 

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AMY KING

IN AUGUST and September 2015 Japan and China commemorated the 70th anniversary of the end of World War II. The observance activities were keenly anticipated as a way of gauging the temperature of the China–Japan relationship. The commemorations showed that the two governments worked hard to prevent further deterioration in the bilateral relationship, but that China and Japan are still far apart on Asia’s future strategic order.

Japanese Prime Minister Shinzo Abe marked the 70th anniversary of Japan’s surrender with a statement that came far closer to an official apology than most Japan-watchers expected. In his 14 August statement, Abe repeated the language of past official statements, including that of former

prime minister Tomiichi Murayama in 1995, by using key phrases such as ‘deep remorse and heartfelt apology’ (*tsuetsuna hansei to kokoro kara no owabi*), ‘invasion’ (*shinryaku*) and ‘colonial rule’ (*shokuminchi shihai*).

But Abe’s use of the latter two phrases came only within the context of his pledge that Japan would ‘never again’ resort to practices of invasion or colonial rule. Though Abe referred to the ‘immeasurable damage and suffering’ that Japan caused innocent people at home and abroad, he did not explicitly describe Japan as having been responsible for invasion and colonial aggression in Asia.

Crucially, Abe’s statement linked Japan’s history of wartime aggression with Japan’s post-war and future contributions to international peace and prosperity. He pledged that Japan would continue to support values

New weaponry featured in the commemorative parade in Beijing marking victory in World War II.

of freedom, democracy, respect for human rights and the rule of law. He also argued that international disputes should not be settled through the use of force. In doing so, Abe implicitly depicted Japan as a supporter of the international order that China was attempting to challenge.

The response to Abe’s statement from China was one of muted criticism. Xinhua news agency described the statement as ‘lacking sincerity’ and criticised Abe for ‘beautifying’ the history of the Meiji era. Xinhua also criticised Abe’s statement that future generations of Japanese should not be ‘predestined to apologise’. But, in contrast to past practice, official media did not encourage popular anti-Japanese

protests. Instead media reports in the lead-up to Abe's speech sought to foster calm, rational responses by Chinese netizens to the Japan history issue.

The Chinese Foreign Ministry's response was also carefully phrased to avoid inflaming anti-Japanese sentiment and cause tensions in the China–Japan relationship. The foreign ministry merely reiterated past statements about the importance of 'looking at history squarely' and would have been pleased that Abe's statement repeated this phrase almost verbatim (*kako no rekishi ni masshōmen kara mukiawanakereba narimasen*). More significantly, in response to the visit to the controversial Yasukuni Shrine on 15 August by a number of Japanese cabinet members, the foreign ministry noted China's 'strong dissatisfaction and resolute opposition' but did not condemn Japan or urge retaliation.

Three weeks later it was China's turn. On 3 September, the Chinese Communist Party (CCP) held a parade that was simultaneously designed to commemorate China's victory over Japanese aggression in 1945 and display China's formidable military capabilities. The three-hour parade along Chang'an Avenue, in front of Tiananmen Square, was observed by CCP leaders, past and present, and involved 300 veterans of the War of Resistance against Japan, 12,000 People's Liberation Army troops and hundreds of pieces of new military equipment.

Seeking to place China's contribution to the defeat of Japanese aggression in a wider global context, the CCP was eager for the participation of foreign governments. Yet although the military parade was observed by Russian President Vladimir Putin and South Korean President Park Geun-hye, among

others, most Western heads of state and many of China's Asian neighbours declined the invitation. Unsurprisingly, Japanese Prime Minister Abe was among those who declined to participate. Yet in a sign that Xi Jinping and South Korean President Park are eager to improve relations with Japan, Xi and Park used their meeting on the sidelines of the parade to agree to hold a trilateral summit with Japan in late October or early November 2015.

There is no doubt that China's military parade was focused on the Chinese people's 'triumph' in having 'crushed the plot of the Japanese militarists to colonise and enslave China', as Xi Jinping put it. In the weeks leading up to the parade, China's CCTV aired many television dramas and documentaries telling the story of China's War of Resistance against Japan.

Yet there were very few references to actual acts of Japanese wartime aggression during the parade. There was certainly no mention of the most heinous Japanese acts, such as the Nanjing massacre or the imperial army's use of 'comfort women'. As official Chinese media explained it, China's commemoration parade 'is not targeted at the Japan of today, is not targeted at the Japanese people, and has no direct relationship with the present-day China–Japan relationship'.

The key message the CCP sought to convey was that World War II marked an important transition for China

Instead, the commemoration activities were much more about China than about Japan. The key message the CCP sought to convey was that World War II marked an important transition for China. In his speech, Xi Jinping stated that 1945 're-established China as a major country in the world' and 'opened up bright prospects for the great renewal of the Chinese nation'. This rebirth was depicted most clearly by the seemingly endless parade of high-tech air, naval and nuclear capabilities along Chang'an Avenue.

The commemoration activities were carefully designed to avoid further poisoning the bilateral relationship, but the events still depicted two countries that are deeply at odds over Asia's future strategic order.

Prime Minister Abe has declared that Japan had learned from the past and was determined to make a more 'proactive contribution' to the post-war international order. Yet Japan's 'proactive contribution' comes in the form of new security legislation and US–Japan alliance guidelines that will allow Japan to play a greater military role in contingencies involving China. At the same time, President Xi states that China 'will never inflict its past suffering on any other nation'. Yet China's massive military modernisation—displayed in the 3 September parade—is designed to deter any state that tries to change the post-war international order.

Though the China–Japan relationship has improved since the worst days of 2010–13, these two countries have yet to work out how to pursue a mutually acceptable future order in Asia. [EAFQ](#)

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