

23rd APR, K.L. Malaysia

Japan-US-China Relations in Asia

2009.6.3

Koji Watanabe
senior fellow, JCIE

Ladies and Gentlemen,

Today, I want to discuss with you two specific issues pertaining to Japan-US-China relations in light of two important recent developments.

At the outset, I would like to underline the fact that the present trilateral relations of Japan-US-China are stable and positive notwithstanding the economic difficulties all three of us are facing.

The first issue that I want to raise with you is the necessity for Japan to reassess its trade relations with the United States.

Throughout the 1980's and the early 90's, there were serious trade conflicts between Japan and the United States, to such an extent that the Japanese economy was described in the United States as a major threat to its national security, replacing the Soviet Union who was no longer regarded as such due to the end of the Cold War

Ironically, however, due to relative decline of the Japanese economy in the 90's and the robust recovery of the US economy with the IT revolution, the US-Japan trade conflict subsided. After what is widely called the lost decade of 1990's, the Japanese economy has subsequently recovered its stable growth since around 2002 by expanding its exports mainly to the United States and China, the two expanding markets in the world.

Against this background, the Japanese economy has now been hit most severely by the United States financial crisis. Japanese exportation to the United States has dropped sharply, registering close to a 47.2 % decline in the 1Q this year as compared with the

same period last year. Japan's GDP fell 15.1% on an annual basis.

Fundamentally, the role and function of the US economy in the world, particularly that of providing a huge and ever expanding market for consumption goods from East Asia, will probably have to undergo a qualitative change.

There is no doubt that the US economy will recover but its rate of recovery will be slow and the shape and nature of the economy will most likely have to undergo a substantive change.

Because of widespread indebtedness among US consumers, personal household spending will have to be restrained particularly on consumer durables. Because they are durable, the purchase of new products can be postponed. Be it automobiles or household consumer durables such as flat screen color TVs or digital cameras. Unfortunately, Japanese products are really durable!

This shift from consumption to saving by the American consumers would inevitably result in the decline of imports, particularly from Japan and other East Asian countries.

In other words, the change of the role of the US economy as a major final consumer of East Asian manufactured products will require Japan and other export led East Asian economies to transform into domestic demand led economies.

Given such a development in the United States, Japanese policy makers are in the process of formulating a new strategy to assist this transformation process in East Asian economies. In other words, Japan will be supporting and assisting East Asian countries to transform to domestic demand led economies with special emphasis on the growing middle class in South-East Asia.

Most likely, the new strategy will have three pillars. The first is to strengthen cooperation in support of proper macro

economics and the financial market. Under Japanese initiative the Chiang May Initiative would be made more stable as a multilateral arrangement. The scale of the initiative would be expanded up to 120 billion dollars and the Asian Development Bank (ADB) capital will be increased from 55 billion dollars to 165 billion dollars.

The second is the development of sub-regional infrastructure so that, for example, the route for transporting goods from Ho Chi Minh City in Vietnam to Chennai in India can be shortened substantially. Japan is urging the Economic Research Institute for ASEAN and East Asia (ERIA) to develop in cooperation with the Asian Development Bank and the ASEAN secretariat, a Comprehensive Asian Development Plan to formulate such developmental projects.

The third is to actively deal with so-called non-traditional security issues like the issue of infectious diseases, global warming, energy saving and disaster relief, essentially taking the form of capacity building and investment for various infra-structures.

What all this boils down to is that Japan will find itself refocusing its policy priority into East Asia regional development, with a view to readjusting external policy emphasis both domestically and internationally. Domestically, more emphasis on demand expansion and an internationally active reevaluation of the East Asia region, particularly the potentials of ASEAN countries.

This does not mean that Japan is losing interest in the US market. Not at all. The US will continue to be one of the major markets for Japanese products, be it automobile or electronic products. Together, with hopefully the ever expanding market of China, the United States market will remain the most attractive buyer for the sophisticated products of the leading Japanese manufacturers. The point is to rectify or rebalance so that over-dependence on the US market in Japanese export trade can be modified.

Now I wish to turn to the second issue that pertains to Japan China relations. I feel most gratified to note that relations between Tokyo and Beijing have been stable and positive particularly as compared with several years ago when leaders of the two countries

failed to visit each other for five years, from 2002 till autumn of 2006.

As was agreed in May of last year between former Japanese Prime Minister Fukuda and President Hu Jintao when President Hu made an official visit to Japan, there have been periodic exchange visits between the leaders of the two countries.

The two leaders have defined the Japan-China relationship as building a “mutually beneficial relationship based on common strategic interests”

Japan China relations have been in fact mutually beneficial. For instance, last year Japan-China trade increased by 12%, reaching 266 billion dollars. China has now become the largest trade partner for Japan, surpassing the United States. For China, Japan is the third largest trade partner after the European Union and the United States.

Japanese firms have been among the largest investors in China. The number of firms operating in China is more than 22 thousand, providing employment opportunities for around 10 million people, directly and indirectly.

In 2007, around 4 million Japanese visited China and 1.2 million Chinese visited Japan. 120 thousand Japanese are currently living in China. Shanghai has surpassed New York City as having the largest population of overseas Japanese. There are 72 thousand Chinese students studying in Japan while 18 thousand Japanese students are studying in China.

New efforts of economic cooperation are now being launched in the field of environmental protection and energy saving fields, two issues that China is facing in a most serious manner as a price of spectacular success in economic growth.

Japan is arguably the most energy efficient country in the industrial world and is considered to be around ten times more energy efficient than China, based upon IEA statistics in 2005.

China is making very conscious efforts to tackle energy savings and pollution control, making them top priority issues. Japan's contribution to coping with these issues is being welcomed.

I have so far elaborated how Japan and China have managed to improve their relations on the basis of mutual benefit for the past several years and the prospect for further development is on the whole, positive.

At this point, I would like to underline my basic belief that I am one of those people who refuse to accept the notion of inevitable rivalry between Japan and China.

There are quite a few people who harbor the idea that Japan and China are destined to be rivals. This is in a way understandable since, as Lee Kuan Yew stated in 1997, there has not been a period of history in which a strong Japan and a strong China coexisted¹. And also the political regimes of the two countries are different and the Chinese economy is rapidly developing, thus catching up with Japan and shortly will be surpassing Japan in terms of the size of its economy.

However, I refuse to accept this notion of inevitable rivalry since this notion is not only irrational, but also most counterproductive in the sense it would damage the true interests of both nations as well as destabilizing East Asia as a whole.

In this context, there is one issue that I wish to point out for the purpose of maintaining mutually beneficiary Japan-China relations, an issue that is giving rise to some degree of concern in my mind. That issue is a most rapid increase of defense spending

¹ Lee Kuan Yew: 1997 "This region (East Asia) has never at the same time experienced both a powerful China and a strong Japan. For the present, the United States provides a comfortable buffer. It is in the interests of all parties to preserve this buffer, providing time to work out a longer-term modus vivendi"

and lack of transparency in Chinese military-related affairs.

This concern relates to the security structure of East Asia in general and to the unique national defense structure of Japan.

In underlining the unique defense structure of Japan, I am primarily referring to very strict self-restraint which is being imposed by Article 9 of the Japanese Constitution of 1947.

Article 9 of the Constitution renounces “war as a sovereign right of the nation and the threat or use of force as means of settling international disputes” and “the right of belligerency of the state will not be recognized”² Under the Constitution, the Japanese Self-Defense Forces which are of respectable size and capabilities are not, I repeat, not allowed to use force overseas except for strictly defined self-defense purposes.

Thus, the Japanese Maritime Self-Defense vessels that are currently being dispatched to the Indian Ocean are being deployed strictly for the logistical purpose of supplying fuels for the Coalition Forces in Afghanistan. Vessels in Somalia are being deployed solely for the protection of Japanese merchant fleets from pirates in the Gulf of Aden. Now two P3C reconnaissance planes have joined in this anti-piracy mission.

There has been for some time a growing support to revise the Constitution so that the Japanese Self Defense Forces may be allowed to use force abroad for collective self-defense purposes as well as peace keeping or peace making operations under United Nations Security Council resolutions. This is a process which is broadly being called as Japan becoming a normal state.

² Article 9 of Constitution of 1947

(1) Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.

(2) In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized .

It is true that the revision of the Constitution will take time and there is no immediate prospect for Japan becoming a normal state in that respect. But I am convinced that in due course of time the Constitution will be revised and this is where I believe the nature of evolving Chinese defense posture matters.

The Chinese defense budget has been increasing by more than 10 percent annually for the last 30 years. It was officially announced in 2009 that Chinese military expenditures would increase by 17.7%, amounting to 70.3 billion dollars, making China the second largest militarily budgeted country in the world next to the United States.

Incidentally, Japanese defense budget is around 40 billion US dollars, which has not been increased for the last seven years.

It is true that China has the world largest population and a vast landmass surrounded by 14 countries. It has long borderlines and a long coast line facing the Pacific Ocean. It is therefore understandable that China needs to strengthen its defense capabilities. However, the recent trend of acceleration for strengthening and modernizing its defense forces is giving rise to some serious concern, particularly due to the lack of transparency as to its military spending, composition, defense objectives and overall strategy.

Lack of transparency is further compounded by some incidents which have cast some doubts as to the critical issue of effective civilian control of the military. Such case in point was a provocative anti-satellite missile test in January 2007 and a Chinese sub-marine incursion into Japanese territorial waters several years ago.

While it is encouraging to note the importance of strengthening exchanges in the security field are now being recognized, mutual visits of naval vessels between the two countries have started and exchange visits between military leaders of both countries have started, more intensive efforts to communicate for better mutual understanding are required so that the possibility of misunderstanding and miscalculations be minimized.

Japan-United States alliance is considered to be indispensable for the peace and security of the Asia Pacific region as a whole and Japan's defense capabilities will be playing an increasingly important role.

How China's rapidly increasing military capabilities will shape and affect the structure of peace and stability in this setting is of crucial importance for the furtherance of peace and stability not only in Asia Pacific, but also in the world at large.

For this reason, I do support the trilateral dialogue and consultation mechanism among Japan-United States and Japan if only for confidence building purpose.

End