

## Persistence and Change in Japan-China Relationship

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*There is are arguments that claim Japan's receptive postwar policies toward China began to change since 1994 and are more challenging and defiant. This paper is to figure out the reality and to estimate the future course of the relationship. There were no considerable changes in Sino-Japanese relations in terms of economic activities and cooperation and we notice more of persistence than of change. Japan's confrontational and hostile attitude is limited to the issues of national security and it is motivated by the pursuit of expanding its political role following the U.S. demands. These two inconsistent orientations will continue into the future since they are based on changes in domestic Japanese politics. Reluctant realism cannot explain the coexistence of these two orientations because it assumes a unitary decision-maker or unitary decision-making group applying realist views either willingly or reluctantly to different agendas. While commercial liberalist orientation dominates economic relations, reluctant realist orientation represents in the security relations. This phenomenon is a better term to explain "Selective realism."*

**Keywords:** *reluctant realism, selective realism, Japan-China relationship, persistence, receptive policies, challenging policies*

### 1. INTRODUCTION

It has been said that in 1994, Japan's receptive postwar policies toward China began to change dramatically when Japan invited the Vice-President of Taiwan to the Asian Games in Hiroshima despite China's strong objection. In the following year, in response to China's continued nuclear tests, Japan froze its ODA (Official Development Aid) to China. In early 1996, in order to claim territorial rights over the Senkaku Islands, Japan applied EEZ (Exclusive Economic Zone) jurisdiction over Chinese maritime activities in the East-China Sea. After this confrontational period (1994 to 1996), Japan began to foster a friendlier attitude toward China. In 1997, Japanese Prime Minister Hashimoto visited China, where he claimed "constructive partnership" with China. However, during the state-visit to Japan in 1998, President Jiang Zemin refused to sign a joint declaration that stated Japan's apology for their wartime activities. Also, in 1999 during Japanese Prime Minister Obuchi's visit to China, he promised to establish an afforestation fund (Press called it "Obuchi Fund."). in the amount of ten billion yen to promote the forest development program that would be used by Japanese private firms.

In August 2000, in response to the Chinese Navy's frequent violation of the Japanese EEZ in the East-China Sea, which coincidentally the Chinese had claimed was to protect their maritime development program, Japanese protested and called this activity as "something that would damage mutual trust." During the foreign ministers' meeting, Japan expressed its grievance against China by pointing out two facts: (1) the current domestic mood was seriously against the economic aid to China, and (2) it hopes that this event would not affect the upcoming visit of Chinese Premier Zhu Rongji, which was scheduled for October of that year.

These are the events that occurred between Japan and China during the 1990s. These

interpretations of this picture: one argues that it illustrates an important change in Japan's foreign policy toward China, and the other argues that it shows the persistence from the previous period of the Japanese attitude toward China. Both of them take the Japanese response to the Tiananmen Square Massacre as the yardstick to evaluate the above-mentioned policies.

For the first group, Japanese response to the Tiananmen incident is the most typical behavior of the previous period (and the preciously-mentioned events mark a serious departure from their behavior). At the 1989 G-7 summit meeting in Paris, Japan signed a joint declaration decrying the Chinese government's human rights violation in the incident. However, except for the suspension of the ODA negotiation, Japan did not implement any of its promised measures such as a cut in foreign direct investment (FDI), control in trade, and withdrawal of Japanese business residents in China.

On the contrary, the second group argues, the incident was a typical Japanese response to Chinese provocations. They argue that Japan still conducts an old-fashioned foreign policy, which the U.S. has characterized as being reactive and irresponsible (Wolferen 1990; Stockwin 1988; Calder 1988; Inoguchi 1987). During the Taiwan Strait incident in 1995, China conducted both ballistic missile tests and military exercises three consecutive times. President Clinton sent a personally signed letter to Jiang Zemin condemning China's military exercise. Furthermore, top foreign officials from the U.S. warned that this incident could result in grave consequence and, for the first time since the Vietnam War, the U.S. dispatched large scale military vessels and aircrafts to the strait. Japanese Prime Minister Hashimoto also commented that the missile test could lead to an "unfortunate turn" but the exercise itself was conducted in the high seas and therefore was not a violation of international law (*Korea Times* 9 March, 1996). Even the Vice Foreign Minister of Japan remarked on the situation simply as something "undesirable" (Johnstone 1996).

Do those Japanese policies since 1994 connote both fundamental and sustainable changes in Japan's policy toward China that could magnify and develop into the twenty-first century? Or, are these changes limited to certain issue-areas and are they merely spontaneous responses that could be regarded as something inconsequential? It is necessary to assess the essence of the change.

In order to answer these questions, we should first consider the past and present Sino-Japanese relations in security and economic terms. During the Cold War, Sino-Japanese relations had proceeded with separated security and economic realms. Since the Cold War is over, when we compare changes in these two realms, we can find the identity of the current policy change: whether it is rooted in a certain sector or it is based upon a generic transformation of the relationship between the two countries.

The next step is to judge if the change is the product of cooperation between U.S. and Japan under the alliance system or unilateral decision made by Japan itself. In other words, the two most important variables in analyzing Japanese foreign policy, U.S.-Japan relations and Japanese domestic politics, will be used as an analytical framework in surveying changes in Sino-Japanese relations. As we put together these particles, we will have a detailed picture of Japan's China policy in the 21st century.

This study has found that there were no considerable changes in Sino-Japanese relations in terms of economic activities and cooperation. Persistence was the major feature in this economic realm. Japan's confrontational and hostile attitude towards China since 1994 is limited and centered to the issues of national security such as strategic maneuvers, nuclear tests and military exercises. Second, this change is motivated by the pursuit of Japan's

national interest in terms of expansion of its political role and by the burden-sharing demand from the U.S. However, it has proceeded in accordance with military realism, which is one of the foreign policy schools in Japan since the 1980s. This phenomenon will continue in the realm of national security since the current changes in foreign policy is heavily based on the changes in domestic politics of Japan.

## 2. LITERATURE REVIEW

Among the works on the bilateral relationship of the 1990s between Japan and China, only a few deal directly with the question of changed Japanese attitude in the two areas of security and economy at the same time. To specify the contribution of this paper, I am going to review the works concerned with the topic of discussion: the rise of realism.

Green and Self (1996) is the staunchest proponent arguing for the “reluctant realism” in Japanese policy of 1990s toward China. Domestic consensus on commercial liberalism, which had been formed under the Yoshida strategy, still exists but an increasing number of political actors such as politicians, business leaders, scholars and bureaucrats are turning their backs to the consensus and began to pursue new policy orientations. They characterize the China threat as coming from the potential instability due to long-term strategic imperative and from the inevitable expansion of Japan’s Security role. They believe deepening interdependence will not guarantee a cordial relationship. The current market condition in China is seemingly overheated and the future is not bright. In addition, the economic growth of China and the deepening of interdependence could be transformed into shortages in resources and fuel, environmental devastation, and to some extent, in economic competition and challenges in military hegemony. Moreover, Japan still could not ensure its influence over policy decision in China, which they expected the interdependence would bring (Green and Self 1996). This perspective exhibits a security-first propensity and non-recognition of independence in the economic realm.

This propensity to focus on the security arena and the new domestic forces in politics appears again same in Self (2002). This shows stark contrast with Sutter (2002) who projects the optimistic future of the bilateral relationship based upon Chinese efforts to sustain its economic growth by accommodating the demands of neighboring countries through active participation in bilateral and multilateral discussions.

Funabashi(1998), another pessimist, laments that the long-term depression and the following budget cuts may result in the reduction of Host Nation Support for the U.S. forces in Japan and the indifference to the Asian countries suffering from economic crisis that would damage the U.S.-Japan relationship and cause pacifism in the Japanese foreign policy. He is most worried about the rise of realist orientation in Japan that makes it stick to the power politics by focusing on the relative gains. “Japan is in a deep funk. Its economic debilitation, political gridlock, and rapidly aging population all contribute to a pervasive pessimism and imperil its cherished identity as a non-nuclear, non-weapon-exporting, economically dynamic, democratic, generous civilian power... Japan is evolving from an era of commercial liberalism to one of reluctant realism. A weaker economy means that national interests will have to be defined more realistically (Funabashi 1998: 26, 35).” In his analysis, however, he does not describe the fine details of various sectors of Japanese society. The economic depression is expected to change the color of the whole picture.

Compared with these views, Shambaugh (1996) provides a more balanced view on the

relative weight of the two different sectors. The analysis starts with assuming the two trends of economic interdependence and strategic competition. After comparing the bilateral relationships in trade and invest a the one hand and political issues a the other, he argues that the future will be at some point between 'friendly neighbor school' and 'potential rivals school.' But by skipping the analysis on the connection with the history of the bilateral relationship, he fails to mark the discontinuity of the new trends in 1990s. Lampton and May (2000) present succinct analysis of the changed bilateral relationship of the latter part of the 1990s. In this case, however, they focus really on the strategic competition between the expansion of Japan's security role and China's military modernization and the following contention of perceptions.

Takagi (1999) provides the changes in the profiles of national power of Japan and China during the Cold War. Japan was an economic Giant while China was underdeveloped, and Japan was a minimalist state in politics while China was behaving as a major power. In the 1990s, however, the powers of the two came to merge to a point causing the crowding effect for limited resources. His analysis stops at showing the difficulties in achieving equal partnership but does not proceed into more detailed arguments on the contention.

The facts presented in this review must be addressed in order to conduct a comprehensive analysis on the future of the bilateral relationship. Accordingly, we will examine the historical context and determine the relative and change of security and economy in the bilateral relationship and reveal the rise of realist consideration of relative gains. Finally, the decision making process will be probed to elucidate the future of the relationship.

### 3. THE SINO-JAPANESE SECURITY RELATIONSHIP

#### 3.1. Security Relations during the Cold War

After World War II, there was no military relationship between Japan, which was devastated, and post-civil war China (Iriye 1990). Based on the Yoshida strategy, Japan's policy focused on economic development. Pressured by the U.S. government, Japan concluded a peace treaty with Taiwan in 1952 even though bilateral trade with Mainland China still continued. Experiences from the war made Japan realize that a hostile relationship with China would not benefit its own national interests. Japan continued bilateral trade with China, believing trade would be a vital factor in maintaining a friendly relationship. On the other hand, China maintained bilateral trade with Japan and claimed that the peace treaty concluded between Japan and Taiwan was invalid.

This relationship progressively became strained. In the late 1950s, China initiated the "Great Leap Forward," a plan to construct a radical socialist country based on its own developmental model and adopted an aggressive foreign policy. At the same time, Japanese Prime Minister Kishi, who had a pro-Taiwan policy made a state visit to Taiwan and frustrated Beijing. Also, China bombarded the Quemoy Island and Matsu Island in the Taiwan Strait causing military tension between the U.S. and China. Moreover, the revision of the Mutual Security Treaty (MST) in 1960, which emphasized U.S. responsibility over Japan's national security and strengthened military cooperation between the two countries (Hara 1991), pronounced the contradictions between Japan and China.

Only years later was the relationship with China normalized through Prime Minister Ikeda's economy-first policy and cuts in the defense budget. The Sino-Soviet conflict

involving both ideology and territory, provided an atmosphere for China to reconcile not only with Japan but also with the U.S. When there was a brief moment of tension between China and Japan (ie. after China succeeded in becoming the third nuclear power in 1964), the bilateral trade between the two countries prevented the strain in the relationship. During the hectic years of the Cultural Revolution and conflict with the Soviet Union, China took cautious diplomatic steps to avoid international isolation. In the late 1960s, it was judged that Japan had reached equilibrium with China in terms of military capability. However, Japan avoided defining China in militaristic terms.

In 1972, the tripartite relationship among the U.S., China, and Japan was formed based upon the common antagonism toward the Soviet Union. During the process of normalization, Chinese Premier Zhou Enlai left a legacy that has greatly influenced the process of subsequent Sino-Japanese relations. Premier Zhou Enlai showed how to overcome political obstacles and reaching a compromise by remarking, "Seeking great unity, leaving small differences (*qiu datong cun xiaoyi*)." As for the issue of the past he said, "Remember the past as a guide to the future (*qianshi buwang houshi zhi shil*)," then went on to announce the renunciation of war reparations. Thereby, Japan had to carry two psychological debt in conducting foreign policy: (1) the atrocities committed by the Japanese army during the Nanjing Massacre, and (2) the renunciation of huge war reparations (Park and Kim 1998). Even until the 1990s, these two issues surfaced whenever the two states were in conflict.

In 1979, demonstrating Japan's willingness to commit a positive relationship with China, Prime Minister Ohira increased yen loans to China. In the early 1980s, the Soviet Union regarded this cooperation as a military threat and responded by increasing its military presence in the Far East. This in turn resulted in the augmentation of Japan's defense spending and more solid cooperation with the U.S. On the other hand, China, which had to face the Soviet military buildup with its decreased military capability due to the Cultural Revolution, tacitly approved the augmentation of Japanese defense capability.

The honeymoon period of the 1970s spilt in the 1980s over the economy and security in addition to the occasional conflicts regarding past crimes and the issue of Taiwan. On two occasions, one in 1982 and the other in 1986, there were conflicts concerning Japanese history textbook that purportedly distorted Japan's role in World War II. For the first time since the war, Japanese Prime Minister Nakasone paid an official visit to the Yasukuni Shrine, resulting in a strong protests from the Chinese government and press. In 1987, there was a dispute between China and Taiwan over the ownership of a dormitory in Kyoto University called "*Kuang Hwa Liao*" which was exclusively used by Chinese students. The Japanese court ordered the Chinese students from Mainland China living in the dormitory to vacate the premises. These incidents where nationalism was involved were resolved by the personal relationship between Prime Minister Nakasone and General Secretary Hu Yaobang. In the end, the Japanese government accepted Beijing's demands and quickly closed the issues by dimission Education Minister Fusio. Prime Minister Nakasone also made a commitment to be cautious in paying official visits to the Yasukuni Shrine (Park and Kim 1998).

### 3.2. Security Relations in the Post-Cold War: The Emergence of the Security Dilemma

A new trend in the Sino-Japanese relations of the late 1990s is the coexistence of "low-profile" diplomacy or "non-confrontational" attitude to the security dilemma. The former was the core of Japan's security policy towards China during the Cold War, and the latter is a distinctive feature in Japanese international relations. In other words, realism is slowly

emerging in the overall liberalist atmosphere. We now closely look at how China and Japan perceive each other as a security threat and examine the continued existing relationship under that threat.

### *3.2.1. China as a Threat*

One of the consequences of the end of the Cold War was the increased effort of China to modernize its army (People's Liberation Army). From the fall of the Berlin Wall in 1989 to the disintegration of the Soviet Union in 1991, almost every communist state had experienced a regime crisis. As the possibility of regional conflict increased, China had to prepare for local challenges. In order to protect its national interests and to expand its influence while a new system was being materialized, China felt that it needed a strong army to accomplish it. The military authorities, which had a firm control on the nation through the Tiananmen Square incident, asserted the need for the modernization of the Chinese army. This desire was further accelerated by the fact that the U.S. had the most advanced military capability using the cutting-edge technology as evidenced during the Gulf War in the 1990s. Since then, China has maintained a double-digit percentage increase in military spending (Oh 2000).

From the war in Kosovo, Chinese confirmed the U.S.'s posture to engage in regional dispute and the dominance of the U.S. military. This confirmation made China to adopt a strategy of asymmetric war, based on the modernization of strategic weapons, that targeted U.S. bases stationed in East Asia (*Far Eastern Economic Review* 14 October, 1999). China was pursuing its RMA (Revolution in Military Affairs) under the military doctrine of "Strategic Attack (Stoke 2000)." In that process, China developed and deployed an increasing amount of intercontinental ballistic missiles (ICBMs) and medium-range missiles. These developments were perceived as a threat to U.S., Japan, and Taiwan, and thus brought about the U.S. response in the form of NMD (National Missile Defense) and TMD (Theatrical Missile Defense).<sup>1</sup>

In addition to the augmentation in military spending, the Chinese National People's Congress (NPC) passed the Territorial Water Law in 1992 confirming the national sovereignty over the Senkaku islands, the Spratly islands, the South China Sea, and Taiwan (Lampton and May 2000). Since 1994, China has increased the intensity of military threats in response to Taiwanese politicians' statement about the independence of Taiwan. Despite international criticism, the mainlanders continued nuclear weapons tests. Moreover, China's high rate of economic growth, which has been sustained for more than a decade, symbolized the growth of China's national strength leaving the impression that for the long term, the revisionist China would challenge the hegemony of this region. As a consequence, these aforementioned Chinese policies have functioned as factors for Japan's perception of threat (Ming and Montaperto 1999).

### *3.2.2. Japan as a Threat*

China perceived the changes in Japanese defense policy as a potential threat. After the Gulf War, Japan had passed a bill on Peace Keeping Operations (PKO). Recently, there has

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<sup>1</sup> China has been stationing 70-80 land-based medium range missiles that could reach the entire Japanese islands and other region of Asia. Also, CSS-2, the major component of the strategic missile forces is being replaced by CSS-5 (DF-21), that has higher precision strike capability.

been an effort to legalize the participation of the Peace Keeping Forces (PKF) in normal military operations when armed conflict is involved. The bitter frustration felt by Japanese during the Gulf War prompted them to actively pursue a permanent membership in the UN Security Council. Prime Minister Miyazawa's speech at the 50<sup>th</sup> anniversary of UN in 1992 was the starting point for the following efforts. In 1997, Japan officially ran for the permanent membership along with the Germany. This action was interpreted as a pursuit of Japan's expanded role based upon its economic might.

The New Guideline achieved its legal status with the passage of Bill on the Situation Surrounding Japan in the Diet. It enabled Japan to participate in incidents in areas surrounding Japan by providing rear-area support to the U.S. military. This meant that Japan's area of military operations had been expanded from their original neighboring waters to areas including northeast of the Philippines, Strait of Malacca, and Northeast Asia. Although the title is acclaimed to implicate operational situations rather than geographical situations, it would trouble China if the operational area included Taiwan.

The policies concerned with the above-mentioned enlarged roles were in conflict with the Constitution and other applicable laws. However, all the efforts to change Japanese security policy were converted into efforts to amend the Peace Constitution. During the Cold War, the Constitutional debate on security policy, as a part of the 1955 political system, has been one of the major issues in the political confrontation between the ruling and opposition parties. There also existed institutions designed to research possible constitutional amendments, but the activities had been confined to party's internal operations. However, in August of 1999, the Diet passed a bill for the establishment of the Constitutional Research Council at the Diet. From the perspective of the Chinese, these efforts now being made in Japan were interpreted as the resurrection of militarism.

Already ranked second in the world, Japan's defense spending may enable it to establish cutting-edge military capability, especially in navy and air power. After North Korea conducted a test-launch of its Daepo-dong missile in 1998, Japan accepted the joint-research project on TMD, which Japan hesitated to join when initially proposed by the U.S. At the same time, Japan decided to develop a reconnaissance satellite of their own.

### *3.2.3. Chinese Perception: Threat, Long-term and Potential*

Based on a series of policy changes of the 1990s, we can tell that both China and Japan face security dilemma. However, China perceived Japan only as a potential and long-term threat. It has a consensus on the importance of maintaining a stable relationship with Japan. It goes further to say that since both China and Japan are capable of making mutual cooperation and harmony, the emergence of militarism in Japan is a possibility but not a necessity. In spite of this kind of positive attitude, Chinese perception of Japan turned negative, as Japan's attitude toward China gradually grew hostile beginning in 1994 (Ming and Montaperto 1999). Beijing expressed a strong discontent when Japan invited the Vice-President of Taiwan to the Hiroshima Asian Games of October 1994. It also condemned the Higuchi Report, an assessment of Northeast security environment, saying it had deliberately targeted China. On the U.S.-Japan Joint Declaration of 1996, China claimed it would undermine regional stability since China was on the list of potential threats along with North Korea and Russia. As for the New Guideline, China questioned on its practical function and expressed more intense discontent.

China also believes that Japan, with its cutting-edge technology, has the capability of

developing both nuclear weapons and ballistic missiles. Taking into account the changes such as the increase in potential military capability, its willingness to play a larger role and policy change toward “normal country,” China believes that Japan has the potential to make a hegemonic challenge when U.S. forces are not present in this region in the long run.

#### *3.2.4. Japanese Perception*

There are various contrary perceptions of Chinese policies in Japan. Public opinion has of late rapidly switched toward viewing China as a threat. Yomiuri/Gallop poll shows that the percentage of the Japanese respondents who named China as a potential threat increased from 18 percent in 1994 to 39.1 percent in 1997 (*Yomiuri Shimbun* 17 March, 1997). Many Japanese scholars, however, do not perceive China as posing a direct security threat but, at the same time, a few scholars still suggest that the Chinese security policies contain underlying threatening factors. Kayahara (1997) points that the lack of transparency in Chinese military expenditure is the source of suspicion and worry for the concerned countries. Kokubun (1996) explains the rising perception of the China threat in Japan in terms of expanding China’s military expenditure and equipment, Chinese policy in the South China Sea, its nuclear tests, and the increasing influence of the military in Chinese politics. Even though these scholars do not accept the proponents of the China Threat thesis, they agree with the long-term potential threat of China. The public, scholars and politicians in Japan assume that since China is a revisionist state, it has an intention of filling up the power vacuum in the region, left behind by the end of Cold War. Also they believe since the PLA justified its aggressive policies under the name of territorial right, the Japanese government should be prepared to clearly delineate the borders for the future.

Other scholars who take the opposite position emphasize the fact that China, in respect to military capability and economic resources, does not have the power to pose a threat to Japan (Abe 2003). It is true that China has a belligerent image due to its efforts to modernize the military and its high growth-rate of military expenditure, and numerous missile tests, but in reality, Chinese military expenditure is only 10~20 % of Japanese defense spending. These scholars claim that the phrase “China as a threat” is an exaggeration and insist that the Japanese government should induce China to participate in a multilateral security order and help them to improve transparency so that they too can become a member of the East Asian community. Traditionally, however, the Japanese government stood closer to this position than to the former one.

However, since 1994, the government became critical and the policy had been leaning toward “China as a threat.” (Zhang and Montaperto 1999). The Basic Strategy of Japanese Foreign Policy of the 21<sup>st</sup> Century, a document issued in November 2002 by a task force team composed of scholars, retired bureaucrats, and businessmen, clearly expresses its apprehension about Chinese military buildup and expanding military expenditure (Task Force on Foreign Relations for Prime Minister 2002). Differing with scholars, pessimistic politicians exhibited their security-first propensity by believing that deepening interdependence with China would not guarantee a friendly relationship. The current market condition in China is seemingly overheated and future prospects are dim. In bilateral trade, the volume is not a concern, and Japan’s vast trade deficit with China may become worse. In addition, the economic growth of China and the deepening of interdependence could be transformed into shortages in resources and fuel, environmental devastation, and to some extent, in economic competition and challenges in military hegemony. Moreover, Japan is still unable to ensure

its influence over policy decisions within China, which it expected the interdependence would bring (Green and Self 1996).

#### 4. THE SINO-JAPANESE ECONOMIC RELATIONSHIP

##### 4.1. The Economic Relationship during the Cold War

Although it was temporarily suspended, economic relations between the two countries have been rigorously developed compared to security relations, which have been proceeded through repeated conflicts and hostilities. First of all, the bilateral trade, which had been continued up until the end of the war, resumed immediately in 1947 with only two exceptions; the first one in 1950 and the second one in 1958. Even though CoCoM (Coordinating Committee for Multilateral Export Controls) was established in 1950, bilateral trade between Japan and China was still permitted in order to separate China from the Soviet Union. However, with the outbreak of the Korean War, China soon entered the war and the U.S. government placed an embargo on all the trading activities of China. When the war was over, Japan was anxious about the possibility of domestic demand rapidly dwindling and I looked to the Chinese markets to fill in the vacuum. As it turned out China wanted to increase trade activities with capitalist states following the war. Then when Japan's expectations of its demand actualized, the condition for resuming trade began to take shape, and the private foreign trade pact was concluded in 1952, without formal inter-governmental ties.

The continued growth of private trade was disrupted due to the conflict between the two countries during the Kishi administration. When the two countries agreed to set up the Trade Representative Board, Japanese Prime Minister Kishi, a pro-Taiwan politician, did not approve of the plan because of Taiwan's strong protest. His visit to Taiwan provoked China's wrath. There was another incident. Japanese right-wing group in the Chinese merchandise exhibition center in Nagasaki pulled down the Chinese national flag. In response to that incident, the Chinese sent a notification that they would stop all trade relations.

In 1960, due to the failure in the "Great Leap Forward" and natural disasters, China needed to import chemical fertilizer and agricultural machineries for increased output. When the Chinese request for the three principles of politics<sup>2</sup> and three principles of trade was acceded by Japanese,<sup>3</sup> Zhou Enlai immediately resumed trade relations between the two countries. Realizing the fact that small and medium-sized enterprises could not meet the demands for agriculture-related products, China exchanged 5 year-term notes with Japan in November 1962.

This promised the continued growth in long-term trade between the two countries, which

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<sup>2</sup> Three principles of politics are (1) Japanese government should not be hostile to Chinese government, (2) Japanese government should not join the United States plot against the creation of two China, (3) Japanese government should not interfere with the progress in normalization of relationship between China and Japan.

<sup>3</sup> Three principles of trade proposed by Zhou Enlai in August 1960 are (1) The pursuit of inter-governmental treaty in forthcoming treaties, (2) The conclusion of private pact in the absence of inter-governmental treaty, (3) The recommendation of friendly firms, especially in the trade between medium-firms.

was led by conglomerates within heavy industry. It was called the L-T trade,<sup>4</sup> following the initials of each party's representatives. In 1967, they exchanged a memorandum that promised to observe three political principles and the principle of non-separation of politics and economy. It was called the MT (Memorandum Trade) trade (Fukushima 1996). These changes show the process of development in Sino-Japanese trade: from the small-scale, short-term private foreign trade, to the grand scale of long-term official trade. Until the end of 1960s, the separation of politics and economy had been maintained and under this situation the economic relationship gradually expanded.

Over the normalization of 1972, China began the process of reform and opening based upon the stable trade relationship with Japan (Iriye 1990). The combination of the collapse of the Bretton Woods system and the oil shock weakened the value of the U.S. dollar and strengthened the value of the Japanese yen. This brought the increase in investments and loans from Japan to China. In addition, efforts and cooperation among the developed countries to open the international community's market to Chinese goods provided a positive environment for trade between China and Japan.

#### 4.2. Economic Relationship in the Post-Cold War Period

In 1978, Deng Xiaoping initiated the policy of reform and opening. The NPC adopted "partial introduction of the principle of market economy" in 1982, "a clear vision on the role of the principle of market" in 1987 and "the declaration of socialist market economy" in 1992. Through these changes, bilateral trade, direct investment, and aid for economic development have been expanded and the interdependence between the two countries has been deepened. In trade, Japan has become the largest trading nation for China, and China became the second largest for Japan. Japan had maintained surpluses in trade since 1946, but in 1988. Japan began to record a deficit and the total amount of the debt reached US\$25 billion in 2000. Until 1992, Japan preferred trading to direct investment and the average amount they had invested in China was only one percent of the total amount they had invested abroad. Since 1992, Japan has started to make a heavy investments in China, becoming the fourth largest investor nation to China and the leading investing group had been changed from small, medium firms to multinational conglomerates.

Japan, the largest ODA donor to China since 1988, pressed China to make efforts to improve the environment and to build the proper infrastructure. In 1991, Japan announced four principles of ODA that required beneficiaries to meet the demand from the international society in the four areas: (1) military spending, (2) the development of weapons of mass-destruction, (3) arms trading, and (4) market economy and human rights. In 1996, by demanding submission of details on expenses from the beneficiary nations, Japan showed its willingness to use ODA as the means of foreign policy. Japan's announcement of freezing yen loans to China in response to China's nuclear test in 1995 is a good example. In contrast, China regarded ODA as a substitute for war reparation and accused Japan of using ODA as the means of diplomatic pressure.

**Table 1.** Trade, Direct Investment and ODA of Japan Toward China

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<sup>4</sup> The title of L-T trade was picked out from the first English initial of each representative, Liao-Takasaki, who signed on the Sino-Japanese trade-related memorandum in November 1962 under the Ikeda cabinet. The key commitments in this note are (1) the promotion of a long-term, general trade, (2) the enforcement of the first 5-year trade plan beginning in 1963 and ending 1967.

(Unit: Million Dollars)

Year	Trade Balance with China		Year	Direct Foreign Investment of Japan to China		Year	ODA to China
	Export	Balance		China	ODA		
1985	12,478	5,995	1986	263	1989	832	
1990	6,130	-5,925	1990	457	1990	723	
1991	8,593	-5,623	1991	812	1991	585	
1992	11,949	-5,004	1992	2,173	1992	1,051	
1993	17,273	-3,292	1993	2,960	1993	1,351	
1994	18,682	-8,884	1994	4,440	1994	1,479	
1995	21,931	-13,911	1995		1995	1,380	
1996	21,891	-18,546	1996	2,599	1996	862	
1997	21,758	-20,104	1997	2,016	1997	577	
1998	20,005	-16,966	1998	1,040	1998	1,158	
1999	23,319	-24,467	1999	7,351	1999	1,226	
2000	30,385	-24,752	2000	1,020	2000		

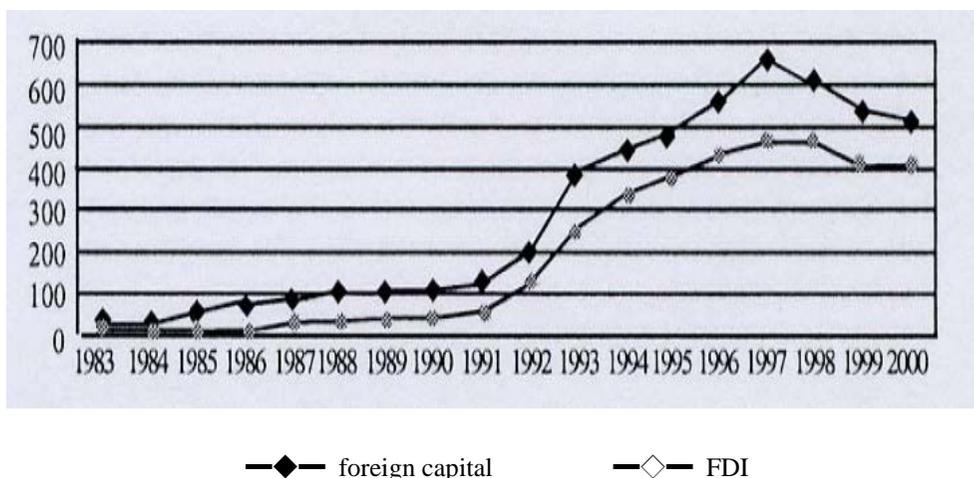
Source: for 1985-1995 Period, reconstructed from Johnstone (1996), and for 1996-2000 Period, *Japan Statistical Yearbook* (1999, 2000, 2001, and 2002)

During the last decade, the interdependence between China and Japan has deepened in these three areas. Chinese willingness to reform was expressed in 1992, which invited rapid increases in trade, investment, and ODA. In 1995, Japan ranked first for China in three areas; trade, technology import, and domestic investment (Park and Kim 1998). The economic development of China is the product of mutual cooperation, but not of Japan's sacrifice. While pursuing a profitable commercial opportunity through economic cooperation, Japan wants to influence the direction of change in China. On the other hand, China wants trade, investment, and technology transfers from Japan, which are essential for Chinese modernization.

However, we need to add qualifications to Table 1 because foreign direct investment and ODA has decreased since 1955. The Diplomatic Bluebook 2001 (MOFA 2001) suggests that the Asian Economic Crisis, an economic slump in Japan, and China's revision of preferential measures for foreign investors are the main causes of this decline. It might also be true that Japan's frustration for China's failure to meet international standards in business norms played a role in the decline; Japan's confrontational attitude is not, though motivated by the reasons as in security issues. Japan's foreign direct investment plunged to a 15-year low in 1999 (*The Strait Times* 14 August, 2002). But the decline was not confined to China alone. Also, Japanese ODA decreased between 1995 and 1997, but China was not the only case. It was a general trend in the Japanese ODA as a whole.

Figure 1. Realized Foreign Capital and Actual FDI, 1983-2000

(US\$ 100 million)



Source: *Almanac of the Chinese Economy* (1997-2000) ; *JIR* (NO. 2, 2001)

According to Figure 1, the growth of the total amount of foreign direct investment going to China has slowed down since 1996.<sup>5</sup> In order to give equal opportunity to domestic firms during the preparation process for WTO membership, China removed the privileges in tax collection and tariffs that were allowed to foreign investment (Hongkong General Chamber of Commerce 1997). “Foreign direct funds to China, for a few years fell below US\$30 billion, but it is not in response to the overall economic factor, but rather it is a temporary adjustment and there are sufficient reasons to believe so. China will remain the number one nation for the destination of foreign direct loans.”<sup>6</sup>

Besides these qualifications, there are several other reasons to believe that the bilateral relationship in the economic arena is different from the one in security arena. First of all, trade, which has been the main connector between the two countries, was maintained at the same level during the same period. Second, the trends of all three items are reversed in 2000. Third, according to the JETRO survey, 95.7 percent of 300 firms that were planning to increase foreign direct investment in the next three years named China as an investment target (JETRO 2002).

## 5. CHANGE FROM LIBERALISM TO REALISM?

<sup>5</sup> Figure 1 is adapted from Lai Pingyao, “Foreign Direct Investment in China: Recent Trends and Patterns,” *China & World Economy*, No. 2 (2002), p.26. JIR is the acronym of *Journal of International Trade*.

<sup>6</sup> According to a daily newspaper, the total amount of foreign direct investment to China has increased 21.23 percent for the first month of 2001 in comparison with the first month of year 2000, the growth rate of direct investment is rising again. The total amount of direct investment in the year 2000 was 40.7 billion dollars meaning that the downward trend has hit the bottom. (<http://dailynews.muji.com/11/english/1049335.shtml>.)

Based on the discussion above, we are now ready to answer the questions raised in the introduction of this study. We need to characterize the Japanese attitude toward China after 1994 as follows: the first feature is that the challenging and confrontational Japanese policies that appeared during the 1990s signals the departure from the previous Japan-China relationship. It is supported by the discussion of the security history and the new trend of the security dilemma. Japanese receptive policy attitude continued from the honeymoon period of the Cold War to the Tiananmen incident. The conflict between the two countries usually occurred by non-governmental actors and was resolved by the heeding by Japan to Chinese protests. In the 1990s, rather than trying to transform the conflict into friendship, Japan showed a tendency to instigate protest or to avoid initiative in resolving odds.

Behind the changes in attitude, there exists the transition in the mentality of the decision-makers from liberalism to realism. The major difference between the two perspectives is the importance of the relative gains. During the Cold War, Japan was the 'economic giant but political dwarf,' while China possessed nuclear weapons and wielded political power and retarded in economic development (Takagi 1999). Interests of the two countries were complementary to each other, and the top priority for the Japanese political leaders was the maintenance of an amicable relationship. In the 1990s, however, the Chinese economy made huge progress, while Japan made significant steps to expand its political roles. Hence, there increased the possibility for clashes of interests. Especially under the security dilemma, decision makers could not overcome the trap of relative gains. However, this phenomenon was not common to the economic realm.

The second feature is that two concurrent yet divergent approaches to the economy and security coexist in Japan. Japan's low-profile diplomacy and non-confrontational attitude reflect the continuation of Japan's original post-war policy: the Yoshida Doctrine, which was formulated by mainstream conservatives and inherited as Japan's national strategy. The Yoshida Doctrine is a liberal approach in the sense that Japan maintains a friendly relation with China on economic issues and it also acts as a buffer to China's aggressive realist foreign policy. Different from the security realm, Japan continued to seek cooperative and mutual interests with China in the economic realm as the international system changed. In early 2001, Japan mobilized safeguard measures against imported Chinese agricultural goods. It was expected to portend the new era of trade war between Japan and China. Contrary to expectations, Japan withdrew the suit realizing that spiral escalation of conflict is detrimental to the interest of Japan and China. From that incident, we can conclude that calculation of absolute interest dominated the calculation of relative gains. That is, liberalism was still the dominant policy orientation in the economic realm.

## 6. INTERNAL AND EXTERNAL FACTORS

In order to determine whether Japan's confrontational attitude will be sustained and magnified into the near future, we should first look at the factors that affect Japanese foreign policy. These are two levels of analysis: the influence of the U.S. and changes in Japan's domestic politics.

### 6.1. The U.S. Influence: Pros and Cons of Asymmetric Alliance

With the end of the Cold War, the U.S. administration had to find an answer to the

conflict between the enlarged role of U.S. and the economic difficulties it faced since the 1980s. The answer was the concept of “cooperative security” under the Clinton administration.

Under the pressure of the U.S. for burden sharing, how would Japan balance between the two divergent trends of pursuing burden-sharing and pursuing its national interests? Is Japan a “theft at a fire”<sup>7</sup> that is only concerned about its own interests and abandons responsibilities as an ally? Or, does Japan act as a “Good Cop” while the U.S. plays “Bad Cop,”<sup>8</sup> for the purpose of role-sharing within the framework of an alliance?

Even under the presence of a clear and present threat during the Cold War, Japan was blamed as a “free-riding” state. Pragmatism in pursuit of economic interest has been the foundation of Japan’s diplomacy. We can draw a conclusion that Japan selectively cooperates with the U.S. and, if necessary, executes receptive policies that runs counter to U.S. interests. There exists a different framework of interest between the two allied countries. Among the threats posed by China, the refugee problem caused by internal disintegration, and environmental destruction are the most serious concerns for Japan while they are of minor importance to the U.S.

Japan’s pursuit of its own self-interest is consistent with the well-known framework of Japan’s decision-making: the U.S.’s check on Chinese foreign policy provides the policy framework for the junior partner in an asymmetric alliance. However, the substantial policy application may vary according to the junior partner’s domestic political situation (Rosenau 1980). Various political groups alternately make their influence on the policy making process. Receptive policy and confrontational policy will also be alternately conducted as we have seen in Japan’s policy toward China since 1994. In this case, reluctant realism (Green and Self 1996) cannot explain the coexistence of receptive and confrontational policies, and the concurrence of realist security policies and liberal economic policies. Reluctant realism assumes a unitary decision-maker or a unitary decision-making group applies realist view either willingly or reluctantly to different agendas. If we recall the Japanese decision-making structure, which is composed of various independent groups, a better definition of the confrontational policies would be “selective realism.” It should be noted that different decision makers exert influence over each different agenda. This perspective shares the common view with the argument of Shambaugh (1996) in the sense that bilateral relations reflect the coexistence of interdependence and security dilemma.

## 6.2. The Environment of Japan’s Domestic Politics and the Weakening of Consent

Japan’s China policy has been founded upon consensus, which has been maintained since the Yoshida doctrine. It hypothesizes that the surge of refugees is due to the internal disintegration and is a more serious threat than a threat of military attack. In addition to this, a strong China is less threatening than a weak China. Based upon this concept, Japan wants to bring China into the market economy rather than isolating it. Japan has been receptive to China’s demand and has provided economic aid, trade, and investment. Although this

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<sup>7</sup> It refers to someone who derives a benefit while others are doing the job. Similar to a free-rider.

<sup>8</sup> The metaphor of “Good Cop” and “Bad Cop” implicates the comparison between U.S. policy and Japan’s appeasement policy towards China, from the perspective of U.S.-Japan joint efforts. In the case of the United States, the demand from the domestic political groups, which ask for the uncompromising policy to its government, seems to enforce a vigorous policy toward China. However, the U.S. could continue its engagement policy with the help of the Japan’s appeasing attitude. See Johnstone (1996).

orientation is still the basis of Japan's China policy, it is also true that this consent has been weakened since the Tiananmen Square incident. The background of Japan's recent confrontational policy has the following political factors.

First, there has been a change in the political leadership. The new political leaders such as Hashimoto and Ozawa do not have a personal affection or political connection with China even though they are the members of the Tanaka faction, which played a leading role in the process of normalization. Until the 1960s, there was a confrontation between the Asia Research Institute, which consists of pro-Taiwan Diet members, and the Asia-Africa Research Institute consisted of pro-China politicians from the LDP (Liberal Democratic Party). Using the power relationship between the two groups, Tanaka achieved normalization with China. Since then, Japan maintained the unitary policy approach (Green and Self 1996). However, due to the generational change in the LDP, China had lost its previous channel of dialogue. In contrast, Taiwan re-established the pre-1972 level of political affinity Japan: In the post-Cold War era, was increased the role of Japanese parties and politicians over foreign policy and defense policy was increased (Nakajima 1999).<sup>9</sup> The influence of the Ministry of Foreign Affairs, which emphasizes friendly relations and restraint from confrontational policy, has been significantly diminished.

Second, China lost one of its biggest allies as the Japanese Socialist Party, an assembly of pro-China politicians, vanished during the process of political reshuffling. There had been numerous policy confusions as the socialist party joined Hosokawa's coalition government. During the Murayama administration, the policy basis of the socialist party – derived from the 1955 system – has been lost as the party platform was revised to accept the Japan Self-Defense Force (JSDF), to acknowledge the U.S.-Japan security alliance, and to abandon the ideology of demilitarized neutrality. Eventually, the party changed its name to the Socialist Democratic Party on January 19, 1996, and announced the dissolution of the party on September 14, 1996. Since then, the policies of all the parties are conservative, and the number of people who favor China has been diminished. In addition, even the Asahi Shinbun and the conservative Yomiuri Shimbun turned critical to Beijing's nuclear tests.

Third, as a result of all the above-mentioned changes, military realism has been magnified since the mid-1980s among elite groups in Japan, which exert influence over the decision-making process. It does not mean that they have overpowered the previous political realists, but rather it is a relative change in the sense that they have raised their voice over Japan's foreign policy more than before.

These political changes are the background that made Japan's confrontational policy possible. The changes, however, should not be exaggerated as another consensus replacing the consensus on the Yoshida strategy. We need to pay attention to the evolution of the foreign policy schools in Japan since 1980s. According to Mochizuki (1984) and Pyle (1989), the consensus on the Yoshida strategy began to dissolve and regroup into 'political realism' and 'military realism' in the 1980s. As a whole, there exist four groups of schools in the

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<sup>9</sup> In this post-Cold War era, the role of political party and politicians has increased remarkably, especially in the areas of foreign policy and defense policy. Nakajima (1999) points out three reasons of this phenomenon; First, the emergence of a new environment in international relations asks for a new, grand framework of foreign policy and the politicians' leading role has played an important part in this process. Second, as the coalition government launched in Japan, the policy-consultation and policy-adjustment was needed between the parties who have a different policy planning. Third, based on their personal relationship with bureaucrats and their ability in policy-development, which was earned from the long reign of LDP, they are able to reflect their plans in policy.

Japanese society: (1) unarmed neutralism, (2) political realism, (3) military realism, (4) Japanese Gaullists. Entering the 1990s, the expansion of Japan's role in defense policy reflects the growth of the military realist school, and many of the political actors mentioned in connection with China policy belong to this group and the Japanese Gaullist School.

Even though the unarmed neutralist school was politically decapitated under the demise of the Soviet Union, there occurred realignment of the political groups during the debate on the new national strategy: (1) Great Power Internationalism, and (2) Civilian Internationalism. The mainstream politician of LDP who belonged to political realism and military realism are inherited into the two strategist groups.

Leadership strong enough to create new consensus has not emerged yet, and this is a part of the political crisis of the 1990s. The division among the foreign policy schools will continue, since it is a main feature of Japanese politics (Wolferen 1990; Inoguchi 1987). Each different group will have its own stake in each policy areas. As an example, we can compare the policies under the Hashimoto administration. While it pursued a confrontational attitude toward China over the security issues, it insisted on the early entrance of China into WTO and the LDP has proposed for the China's participation in the G-7.

## 7. CONCLUSION

It is evident that the essence of change in Japan's China policy cannot be discussed as a matter of degree on the continuum between receptive policy and confrontational policy. The assertion, that Japan's China policy as a whole has been changed from commercial liberalism to reluctant realism, has a flaw. As for the economic realm, the receptive policy works as a basis in formulating such a policy. On the other hand, the two policy orientations were intertwined in the security. The expectation that cooperation in the economic realm could develop into cooperation in the security realm, or the prediction that the confrontation in the security realm could bring about friction in economic relations is unconvincing. This does not mean that Sino-Japanese relation dates back to the pre-1970s in which politics and the economy had been separated. During that time, there was no official inter-governmental relation, but rather it was the private sector who led the economic relations. Now, the Japanese government leads both economic and security matters, and Japan's China policy is conducted so that security realism and commercial liberalism are not violating each other. It is important that the decision-makers continue to a balance between the two.

If a coalition is realized between the U.S.'s Republican administration and Japan's political realist group, the above mentioned balance and ability to coordinate the various economic and security policies will be difficult to achieve. If the Bush administration tries to consolidate U.S. military hegemony by establishing a missile defense system, Japan will plan to magnify its influence in the Northeast region by obtaining advanced missile technology through burden-sharing and by the U.S.'s support for the proponents of the "normal country" and ultra conservative groups. However, this will invite China to further augment strategic weapons and destabilize Japan and China's relationship.

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