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SINO-JAPANESE RELATIONS IN A CHANGING WORLD

1972 - 1992

A Chinese Perspective

By

Jin Huang

THESIS SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS
in the Department
of Political Science

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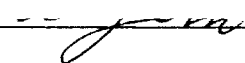
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ABSTRACT

This thesis examines Sino-Japanese relations through a detailed analysis of three factors which affected the evolution of the bilateral relations from 1972-1992. The three factors are: the changes in the international and regional systems, the changes in the Chinese domestic politics and the historical relations between the two countries.

Sino-Japanese relations from 1972-1992 have been divided into six periods for analysis in this thesis. They are: the Initial Years (1972-1975), the Treaty and Agreements (1975-1979), the Controversial Years (1980-1983), the Calm Years (1983-1986), the Stormy Years (1986-1989), and the Special Years (1989-1992).

Several significant cases have been reviewed in the thesis to examine the validity of the three factors. The major events include the conclusion of the Treaty of Peace and Friendship, the conflict of the Baoshan Steel Complex and contract cancellations, the controversy over the Japanese high school history textbook, the Memorial Shrine issue and Chinese student demonstration against Japan, the argument of unbalanced trade between the two countries, the quarrel of the Guanghua Hostel, and bilateral relations after the Tiananmen Square Incident.

Based on the findings of this thesis, it can be concluded that the changes in the global system and the Chinese domestic situation have had more influence on the outcome of Sino-Japanese relations. It is the basic national interest of the two nations rather than historical friendship and cultural affinity that seem to dictate the course of the bilateral relations.

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DEDICATION

For my
mother, wife and children
in appreciation of
their love and encouragement.

TABLE OF CONTENTS

APPROVAL		ii
ABSTRACT		iii
ACKNOWLEDGEMENTS		v
DEDICATION		vi
TABLE OF CONTENTS		
Chapter One	Introduction	1
Chapter Two	1972 to 1979	9
	Initial Years (1972-1975)	9
	Treaty and Agreements (1976-1979)	22
	Summary & Conclusion	46
Chapter Three	1980 to 1989	50
	Controversial Years (1980-1983)	50
	Calm Years (1983-1986)	68
	Stormy Years (1986-1989)	77
	Summary & Conclusion	99
Chapter Four	1989-1992	102
	Special Years (1989-1992)	102
	Summary & Conclusion	128
Chapter Five	Conclusion	131
Bibliography		144

CHAPTER I

Introduction

The Sino-Japanese relationship is one of the most important bilateral relations in today's international system. China has the largest population and Japan is either the richest or second richest economy in the world. The two countries are bound by ties of history, culture, geography and nowadays economic interests. Since Zhou Enlai and Tanaka Kakuei agreed to issue the Sino-Japanese Joint Communiqué on September 29, 1972 to normalize their diplomatic relations, China and Japan have attempted to translate this "new page" of their historical relationship into a tangible reality of peaceful and friendly cooperation.

When people consider Sino-Japanese relations, the long history of exchanges and interaction between the two countries have always been mentioned. Phrases such as *inchii taisui* ("neighbors across the strip of water") and *dubun doshu* ("same Chinese characters, same race") have been often used as symbols of the friendly relationship between the two countries. Chinese and Japanese politicians and scholars are apt to suggest that their countries enjoy a special relationship which stems from the seventh century. Japan's written language and to a large extent its religious, artistic and ethical foundations are derived from Chinese culture.¹ The notion of the Sino-Japanese "special relationship" is based on the theory of economic complementary and reinforced by geographic proximity, cultural affinity and common historical experience.

Shortly after China adopted its open-door economic policy in 1978, Western observers began to regard Japan's predominant position in

¹ Laura Newby, *Sino-Japanese Relations --China's Perspective*, The Royal Institute of International Affairs, New York, 1988, p.49.

China's market. They believed that "as long as the Chinese could sustain a stable domestic political basis for their four modernizations policy, and could improve their bureaucratic and management performance, the normalization of economic and diplomatic relations between China and Japan suggested that both would be able to learn from their past achievements and mistakes and to work out a mature and viable system of mutually beneficial economic cooperation in the years to come. It was also conceivable that the experience of both countries would move them closer together in terms of their economic and political policies in Asia and elsewhere."²

Over the past decades, Sino-Japanese relations have grown in quantity and complexity. The senior officials of the two countries have exchanged visits with each other and signed the Treaty of Peace and Friendship and the Long Term Trade Agreement in 1978. Bilateral trade increased considerably from US \$9.28 million in 1971 to US \$25 billion in 1992. But China reacted strongly when Japan modified its history textbook, and also protested vehemently when the Japanese court adjudicated the Guanghai Dormitory in favor of Taiwan. China also complained about its huge trade deficit with Japan and the slow increase in Japanese investments in China. However, when the western countries opted for sanctions against Beijing for the Tiananmen Square incident, Japan worked as an intermediary to improve the relations between China and the rest of the world.

For a better understanding of Sino-Japanese relations, one should understand that the Chinese and the Japanese are psychologically quite remote despite their common cultural roots. The two peoples have

²Chae-jin Lee, *China and Japan: New Economic Diplomacy*, Stanford Hoover Institution Press, 1984., p 147.

developed a sense at once of commonality and disparity, interdependence and autonomy, mutual respect and suspicion, attraction and repulsion, and admiration and condescension toward one another. They have talked of their shared heritage and their identity as Asians, but they have not hesitated to seek outside assistance to fight against one another. They have contributed to each other's cultural and modern transformation, but their patterns of development have been vastly dissimilar. The study is much more than a narrative of government to government relations.³

Three factors seem to be most important in the evolution of the Sino-Japanese relationship of 1972-1992. They are: the international system, China's domestic politics, and the past history of the relations between the two countries. The starting point of any analysis of Sino-Japanese relations is to understand the transformation of the global system and the influence of such a transformation upon Sino-Japanese relations.

Chinese decision-makers and scholars believe that the "big picture" or in Deng Xiaoping's words *daqihou*, "the Big Weather" is more important and the rest is merely a derivative from the "general condition." Particularly important was the balance of power between the USA and the former USSR under the cold war system. Sino-Japanese relations, they believe, should come under the purview of the international balance of power system.

Since China and Japan normalized their diplomatic relations in 1972, the international system has experienced several major changes.

³ Akira Iriye ed., *The Chinese and the Japanese -- Essays in Political and Cultural Interactions*, Princeton University Press, New Jersey, 1980, pp. 1-6.

The post World War II bipolar system evolved into a strategic triangle, and then developed into a multipolar system when the Soviet Union disintegrated. The internationalization of finance, technology and information also facilitated the economic development of many developing nations, including China. The concept of power has been expanded to include the increase in wealth and advancement in welfare. The old identification of power and security with more control over more territory and population has been changed to the identification with more wealth and economic growth. Economic interests seem to have replaced strategic and security interests. Nowadays the conflicts between countries are more on economic issues than before.

The second factor which influenced Sino-Japanese relations is the Chinese domestic situation. In today's international system, the most powerful actors are still the states. The personal style and political orientation of political leaders, the power struggle between different groups, the transformation of the power structure within the leadership group, and changing national priorities all influence a country's foreign policy.⁴ In other words, foreign policy is an extension of domestic politics.

After the death of Mao Zedong in 1976, the Chinese domestic situation changed dramatically. China started its ambitious modernization program. The political objective of the Chinese government changed from "class struggle" to economic development. A more enhanced collective leadership evolved during the Deng Xiaoping era. The economic development resulted in the tendency of decentralization in Chinese political and economic structure. In recent

⁴John T. Rourke, *International Politics on the World Stage, Second Edition*. The Dushkin Publishing Group, Inc. 1989, pp.75-76.

years, it is the economic problem not the ideological dispute, that seemed to have caused political struggle within the leadership and social turbulence in China. Sino-Japanese relations fell into the same pattern.

Sino-Japanese relations also underwent a transformation from “people’s diplomacy” to official diplomacy. The new bureaucratic diplomats succeeded the old generation “Japan experts.” The decision-making procedure of Sino-Japanese relations became more institutionalized than in Zhou Enlai era when it was more or less the personal decisions of the top leaders.

Within the global system, every bilateral relationship has its own historical, cultural, and geographical characteristics. Those characteristics strongly influence the decisions made by political leaders when they encounter specific bilateral problems. Therefore, it is also useful to view bilateral relations from a historical perspective. This history has both positive and negative aspects. China and Japan have a long history of contacts dating back more than two thousand years, a shared oriental cultural heritage and some common values. On the other hand, the Japanese invasions and conquests of 1894, 1931 and World War II brought to China the harshest consequences of Japanese militarism, and many living Chinese well remember the cruel behavior of the Japanese army. These historical factors have had their influence from time to time in the course of the bilateral relations between Japan and China.

This thesis will examine Sino-Japanese relations from 1972 to 1992 through a brief review of important cases during this period. It intends to identify the role played by each of the three major factors and attests

which one of them was most dominant throughout the years. My hypotheses are as follows:

- i) the historical factor has begun to diminish in importance as the generation change takes place in both countries;
- ii) the same can be observed in the role of leadership and personal influences;
- iii) the trend is towards a more national-interest-oriented approach on both sides; and
- iv) as China becomes a more active participant in international affairs, less distinction can be made between the “Big Weather” and Sino-Japanese relations.

This twenty years history of Sino-Japanese relations is divided into six distinctive periods: The Initial Years (1972-1975), The Treaty and Agreements (1975-1979), The Controversial Years (1980-1983), The Calm Years (1983-1986), The Stormy Years (1986-1989), and the Special Years (1989-1992).

Since the establishment of diplomatic relation between China and Japan in 1972, a warm and intimate atmosphere dominated Sino-Japanese relations during the Initial Years. The development of bilateral relations was quick and peaceful. Although minor turbulence was experienced over the “anti-hegemony” clause in the Peace and Friendship Treaty, this was the “honeymoon” season in the bilateral relationship.

Starting from 1979, Sino-Japanese relations moved into the Controversial Years. The development of bilateral relations was rapid but not smooth. The Baoshan Steel Complex conflict and the contracts

cancellation ended the “China fever” in the Japanese business circle. Followed by the changing opinion of China toward the world system, the first serious political dispute broke out over the issue of the Japanese Education Ministry’s screening of Japanese high-school history textbooks.

After Japanese Prime Minister Nakasone and CCP General Secretary Hu Yaobang exchanged visits in 1983 and 1984, China and Japan enjoyed a calm period in bilateral relations. The establishment of the Sino-Japanese Friendship Committee for the 21st Century and the visit by 3,000 Japanese youth to Beijing boasted the good-neighborly and friendly relationship between the two countries. Even though Nakasone’s visit to the War Memorial Shrine resulted in student demonstrations in several Chinese cities, there was no strong reaction from the Chinese government.

In late 1986, the huge trade imbalance in Japan’s favor and a worsening economic situation in China caused increasing tensions in Sino-Japanese economic relations. China’s readjustment in foreign trade policy resulted in a sharp decrease in China’s imports from Japan. After widespread student protest movements in several Chinese cities and the resignation of General Secretary Hu Yaobang, the Kokaryo (Guanghua Hostel) issue, the defense budget problem, the “man living in the cloud” quarrel, and economic dispute became the keynotes of Sino-Japanese relations during this Stormy Years.

The Tiananmen Square Incident in 1989 marked a new era of Sino-Japanese relations. Beijing and Tokyo moved more carefully in the dealings with one other. Japan played an important role in helping China to overcome its political and economic problems. Japan was the

first industrialized country to provide economic aid toward China after the Tiananmen Square Incident. Their common political and economic interests seemed to have contributed to the new development of Sino-Japanese relations.

In the following chapters, the thesis hopes to identify the main features of Sino-Japanese relations, the causes for these features and their linkages with the global system, the Chinese domestic situation and the past history through a detailed examination of the most significant events in each of the respective periods. The goal is to find out how these three factors interact with each others in the evolution of Sino-Japanese relations. At the end of each chapter, the main features of the period will be re-examined.

CHAPTER II

1972 -- 1979

Sino-Japanese relations during this period could be described as a “honeymoon.” The threat from the Soviet Union made Beijing’s leaders turn to the United States for the security interests of China. The improvement of Sino-US relations opened the way for Sino-Japanese rapprochement. The common interests and the historical friendship contributed to a rapid and smooth development of Sino-Japanese relations. China started its modernization program which displayed a bright future for Sino-Japanese trade.

I. Initial Years (1972-1975)

In the 1960s China was a nation in self-inflicted chaos. It advocated revolution, and actively supported insurgencies in many parts of the world. It was isolated, vulnerable to outside interventions, and enraged by international denial of its legitimacy. The 1970s witnessed significant changes as a result of its foreign policies.

After the turmoil of the Cultural Revolution had subsided in the late 1960s and in the wake of serious border clashes with the Soviet Union in 1969, Beijing began its diplomatic offensive to counter the military threat from the north. Naturally, the United States, the other superpower, was regarded as an ideal counterweight to the Soviet Union by the Chinese leaders. The 1968 Soviet invasion of Czechoslovakia, followed by Sino-Soviet border clashes in 1969, contributed to the decision to bring the Cultural Revolution to a close. During 1969-1971,

Beijing sought to impose order on the country and mobilize its resources in preparation for possible war. Moscow's continual military buildup and search for greater political influence around China's periphery became the strategic center of gravity for Chinese foreign policy in the late 1960s. Top-level Chinese leaders of whatever background or ideological inclination were forced by Soviet actions to focus their foreign policy on the fundamental question of how to deal effectively with the Soviet military threat and political intimidation, without compromising Chinese security and sovereignty or mortgaging aspirations for independence and development.⁵

The death of Defense Minister Lin Biao and the purge of a large segment of the Chinese military high command markedly reduced the political importance of Chinese leadership differences over how to handle the Soviet Union. From that time on, China developed a fairly consistent strategy under the leadership of Premier Zhou Enlai and Chairman Mao Zedong, and later under Deng Xiaoping. It attempted to use East-West differences to China's advantage. The Chinese leaders recognized that only at tremendous cost and great risk could China confront the Soviet Union on its own. It relied heavily on international counterweights to Soviet power, provided mainly by the United States, and its allies. As the United States reevaluated its former containment policy directed against China, and no longer posed a serious military threat to Chinese security, Beijing began a collaborative relationship with the United States and the West as a key link in its security policy against the USSR.

⁵ Chun-tu Hsueh, *China's Foreign Relations -- New Perspectives*, Praeger Publishers, New York, 1982, pp.10-11.

US-Chinese relations took a dramatic turn with the "ping pong diplomacy" in April 1971. Beijing amazed the world by its swiftness and flexibility by inviting President Nixon to visit China in February 1972. Sino-American rapprochement brought a decisive change in China's position in the world and opened the door for the normalization of Sino-Japanese diplomatic relations in 1972. Beijing adopted vigorous measures to accelerate the process of establishing diplomatic relations with Japan.⁶

Beijing, however, was fully aware of the limitations of its American card. Even before the US withdrawal from Vietnam in the mid-1970s the Chinese had already foreseen America's declining military presence in Asia. As a major American ally, with a security treaty that obliged the United States to protect its islands in the event of an attack, Japan occupied a pivotal position in China's global strategy. Strong ties with Tokyo, in Beijing's calculations, would certainly enhance the solidarity of a united anti-Soviet front. China had down played ideology and shifted its emphasis in the direction of trade, economic, cultural, and technological cooperation with Japan.

Chinese overtures to Japan suggested a mutual interest in resisting the extension of Soviet power in Asia. Premier Zhou Enlai indicated to Japanese Prime Minister Kakuei Tanaka in 1972 that China actually welcomed a "reasonable growth" of Japanese strength as a potential

⁶Robert G. Keith, *The Diplomacy of Zhou Enlai*, Macmillan, Basingstoke, 1989, pp.187-205.

counterweight to the Soviet Union's "aggressive designs" in Asia.⁷ After normalizing its diplomatic relation with Japan, China dropped its opposition to the U.S.-Japanese security treaty. In fact, China has acknowledged the stabilizing role of the treaty in the Asia-Pacific region, and encouraged Japan to strengthen its military establishment.

The establishment of diplomatic relations between the two countries in September 1972 opened broad prospects for the development of political and economic relations between China and Japan. Both countries agreed to hold negotiations aimed at the conclusion of a treaty of peace and friendship. The joint communiqué of September 1972 also envisaged the conclusion of four major agreements -- a trade agreement, a civil aviation agreement, a shipping agreement, and a fisheries agreement. All of the four administrative agreements were signed by 15 August 1975. In March 1973 the two countries sent ambassadors to each other's capitals. Chen Chu, a high-ranking career diplomat, was appointed as the first ambassador to Tokyo. The specialty of Chen Chu was not Japan but the Soviet Union and the United States. Such a previous background made him eminently suitable for keeping an eye on Japan's changing relations with the Soviet Union and the United States.⁸ In April 1973 the two countries agreed to hold regular annual consultations at the Foreign Ministers' level⁹

⁷ William Beacher, "Zhou is Said to have Given Japan Military Assurance." *The New York Times*, December 14, 1972.

⁸ Kurt Werner Radtke, *China's Relations with Japan, 1945-83*, Manchester University Press, 1990, p.212.

⁹ *Beijing Review*, April 1973.

There was considerable improvement on the economic and cultural fronts since the establishment of diplomatic relations between the two countries. As many as 10,000 Japanese tourists and 5,000 businessmen visited China in 1973. Over 1,000 Chinese went to Japan during the first eight months after the establishment of diplomatic relations.¹⁰ The number of exchanges at the government level increased rapidly. Special mention may be made here of the visit of a 55-member good-will mission to Japan under the leadership of the Japanese educated Liao Chengzhi. This mission went to Japan in the spring of 1973 in pursuance of China's people-to-people diplomacy. Carefully chosen to represent different fields and walks of life, the members of the mission fanned out all over the country to establish contact with every important interest group in the style of political campaign. The mission received massive media coverage. Liao himself figured prominently on the front pages of the leading newspapers. He was pictured as wearing his old Waseda University school cap and singing the school song.¹¹

Meanwhile, Zhou and Deng advocated a more open-door foreign policy diplomatically as well as economically. By the end of 1973, it was clear that Beijing's more pragmatic approach to foreign affairs had greatly enhanced China's international position and had gone far towards securing its interests around its periphery in Asia.

¹⁰ Robert A. Scalapino, "China and the Balance of Power," *Foreign Affairs*, January 1974 p.374.

¹¹ Kurt Werner Radtke, *Cina's Relations with Japan, 1945-1983*, Manchester University Press, New York, 1990, pp.273-281.

Premier Zhou Enlai obtained Mao's support to carry out both a more pragmatic economic development and modernization program. Zhou Enlai and, after 1973, Deng Xiaoping placed priority on economic development, which they felt could be rapidly accomplished only through closer relations with the West. The United States, Japan and other non-Communist developed countries had the market, technology, managerial expertise, and financial resources that were crucial in speeding up China's troubled modernization efforts so as to increase material benefit to the people, and thereby sustain their political loyalty and support.

Trade before normalization was largely run on the Japanese side by the Association for the Promotion of International Trade -- the link between China and the "friendly firms."¹² After normalization, it was bypassed by the establishment of the Japan-China Economic Association. Diplomatic ties permitted government involvement on the part of Japan. Bilateral trade grew from \$1.1 billion in 1972 to \$3.8 billion in 1975.

There was at this juncture a fortuitous but important complementary relation between the industrial sectors of the two economies. In 1970-1972, the Chinese identified finished steel, chemicals and downstream products of the oil industry as their

¹² The term of "friendly firm" was to identify the firms engaged in Sino-Japanese trade before 1972 which accepted Beijing's principles of no hostility toward China, no support for the "two-China" policy, and no hinderance to normal relations. Chae-jin Lee, *Japan Faces China*, John Hopkins University Press, Bahimore, 1976, pp.141-142.

industrial priorities. Meanwhile, the oil shock during 1973-1974 resulted in the world economic crisis that followed the rise in energy and other raw material prices played an important role in Sino-Japanese relations in the mid 1970s.

Since normalization China had arranged long-term iron and steel import contracts with Japan which amounted to half of its total exports, and had also started purchasing complete sets of industrial plants and related technology by utilizing Export-Import Bank credits. By the summer of 1973, Japan, had concluded half a dozen major contracts for plant exports worth an estimated \$250 million and this trend was continued in the subsequent years. Beijing particularly valued the importance of whole plants for synthetic fiber, ethylene, ammonia, urea, and rolled steel.

In December 1972, for instance, six Japanese major steel-makers concluded an export contract involving about 1.4 million tons of steel goods worth about 67,000 million yen with China's National Metals and Minerals Import and Export Corporation. This was said to be the biggest single deal ever to be concluded anywhere. In March 1973 the Asahi Chemical Industry Company sold to China an acrylonitrile plant with an annual capacity of 50,000 tons. The payment was to be made in ten installments over a period of five years at an interest of 6 per cent on credit from the Export-Import Bank of Japan.

In April 1973, China agreed to export one million tons of Daqing crude oil to Japan from the port of Dalian within 1973. In May 1973,

the Sumitomo chemical Company concluded negotiations for the construction of the world's largest chemical plant in China. The plant, due for completion in 1976, involved an investment of 12,000 million yen. It would have capacity to produce 180,000 tons of high-pressure polythene per year. In November 1973, another agreement was signed for the supply of 40,000 tons of special steel to China during the first six months of 1974.

An official trade agreement (valid for three years and to be automatically renewed thereafter unless either party decides to terminate it) was signed in January 1974. Under this agreement each granted to the other the most-favored nation treatment in tariff and customs clearance. A mixed committee of the two countries was established to supervise trade relations. The agreement provided for the settlement of trade accounts in Japanese yen, Chinese yuan, or other convertible currencies recognized by the two countries; for facilities for exchange of industrial technology; for the holding of trade fairs, exhibitions, etc. for the promotion of trade; and for the use of commercial arbitration machinery.

On June 3 1974, the largest single trade contract was signed since the establishment of diplomatic relations between China and Japan. This was the contract under which the Nippon Steel Corporation of Japan agreed to export to China a steel plant worth \$215.6 million and capable of turning out 3 million tons of hot rolling steel and 70,000 tons of silicon steel plate annually. Nippon Steel also agreed to send 350 technicians to China for technical guidance for the construction and

operation of the new plants while about 300 Chinese technicians would receive training in Japan.¹³ China's major industrial procurements from Japan included not only the huge steel plant mentioned above but also two thermal power units (worth over US \$ 80 million) and a fertilizer complex (worth over US \$ 40 million).

In July 1974, an agreement was reached between the Chinese trade authorities and six major Japanese steel companies for the sale of 1.15 million tons of iron and steel products to China during July - December. In August 1974, the two countries concluded an agreement under which Japan agreed to import a further 350,000 tons of oil at the price of US \$12.58 per barrel. In July 1974, the Export - Import Bank of Japan agreed to extend a loan of 8,065 million yen to the Toyo Engineering Corporation to enable it to export an ethylene manufacturing plant to China. The loan entailed a down payment of 20 per cent and carried interest at 6 percent per annum. The payment of the remainder was to be made over a period of five years. In August 1975 Japan agreed to supply 220,000 tons of ammonium sulphate and 50,000 tons of urea. In October 1975, Japanese steel manufacturers signed another contract for the export of 1.95 million tons of steel products to China during the period from October 1975 to March 1976. The products to be exported under this contract included seamless pipes, plates and sheets.

The two way trade between China and Japan in 1973 totaled about US \$2,015 million, which was almost double the 1972 volume (US

¹³ *Japan Review*, June 1974, p.18.

\$1,100 million) and exceeded the total volume of Soviet-Japanese trade by about US \$500 million. In 1974, Japan's trade with China totaled US \$3,293 million, an increase of 63.4 percent over the figure for 1973. This figure also exceeded Japan's trade with Taiwan (US \$2,953 million) for the first time.

Compared with the rapid growth of bilateral trade between China and Japan, political relations between the two countries developed more slowly. In the Zhou-Tanaka Communiqué of 1972, both countries agreed to conclude a treaty of peace and friendship.¹⁴ But the process of concluding the treaty remained deadlocked for almost six years after China and Japan normalized their diplomatic relations.

One reason for the slow progress in negotiations for the treaty was the emergence of the Soviet Union as a potentially contentious issue. China wanted the treaty to contain a clause opposing hegemony in Asia by any third Power. In China's view, as Japan had already subscribed to the anti-hegemony formula in the joint communiqué of September 1972, any hesitation on its part to reiterate the principle would be a victory for the Soviet Union. Japan resisted Chinese insistence that an anti-hegemony clause, aimed against the Soviet Union, be included in the treaty. This had been mentioned in the 1972 Zhou-Tanaka communiqué, but it was a concept hard to define and had never been included in an international treaty before. It was therefore hardly surprising that Japanese politicians were not prepared to include the concept in the

¹⁴R. K. Jain, *China and Japan, 1949-1976*, Martin Roberson & Co. Ltd., London, 1977, pp.108-109.

main text of the treaty in such a way as to oblige Japan to take specific action should a third country attempt to “practice hegemony.”¹⁵ It was widely assumed, and often confirmed by Chinese leaders that the clause was specifically directed against the Soviet Union. “Opposition to hegemony” was raised forcefully in 1974, especially later in the year. As far as Beijing was concerned it became the central issue of the whole Treaty of Peace and Friendship, since without its inclusion the treaty would be meaningless.¹⁶

During this time, Japan was experiencing difficulties in its negotiations with the Soviet Union over the important issue of fishery rights, one of the many delicate problems facing the two countries. Japan was not very comfortable when China's propaganda criticized the Soviet Union for behaving like an overlord and intimidating the Japanese in the fishery negotiations over the boundaries of the 200 mile economic zone, formulated at the United Nations Law of the Sea Conference.¹⁷ Japan wanted a Peace and Friendship Treaty with China on a strictly bilateral basis just as it preferred to secure a bilateral settlement of its dispute with the Soviet Union over the northern territories, four islands off Hokkaido.

¹⁵Y H Park, 'The "Anti-hegemony" Controversy in Sino-Japanese Relations', *Pacific Affairs* 49 No 3 (Fall 1976), p. 476.

¹⁶Chun-tu Hsueh, *China's Foreign Relations -- New Perspectives*, Praeger Publishers, New York, 1982, pp.49-51.

¹⁷"Japan-USSR Fishery Talks: Hegemonism Goes against the will of the people," *Beijing Review*, April 22, 1977, p.46-48. "Support Japanese people's just struggle," *Beijing Review*, May 13, 1977, pp.17-18.

The Soviet Union was concerned about the implications of a Peace and Friendship treaty between Japan and China. Soviet susceptibility complicated Tokyo's task. On June 18, 1975, for instance, Tass published a "statement" the Soviet Government had sent to the Government of Japan. Through the "statement" the Soviet Government warned Japan that if it agreed to include the "anti-hegemony" clause in the proposed Sino-Japanese peace and friendship treaty, it would prejudice the improvement of Soviet-Japanese relations. It argued that China was trying to draw Japan into an anti-Soviet diplomatic policy. Later the Soviet Government reiterated this viewpoint on several occasions through diplomatic channels.¹⁸ The Soviet Union also invited Japan to join its proposed "Asian Security System." Tokyo resisted the inclusion of an "anti-hegemony" clause in the peace treaty. Proposals and counter-proposals were exchanged yet there was no breakthrough three years after the initial negotiations.¹⁹

Internally, Chinese leaders harbored deep differences on a range of important issues, including some aspects of foreign policy. The radical group under Mao's wife Jiang Qing and three other Chinese Politburo members (Zhang Chunqiao, Yao Wenyuan, and Wang Hongwen) argued that China should maintain a relatively "closed-door" foreign policy, restricting contact with the outside world to a minimum. Only in this way could the country preserve its social and political purity and its

¹⁸ *Japan Times*, June 19, 1975.

¹⁹ For the developments of Sino-Japanese relations since 1972 until the start of initial negotiations on the peace treaty see A. M. Halpern, "China and Japan Since Normalization," in Chun-tu Hsueh ed., *Dimensions of China's Foreign Policy*, New York: Praeger, 1977, Chap. 5.

strength and dignity. Since the beginning of 1974 “radical” influence had increased considerably, as evidenced by the anti-foreign campaign criticizing Confucian and Lin Biao. Premier Zhou Enlai was under attack during the campaign due to his pragmatic policy on economic development and foreign affairs. Because of the political leadership vacuum created by the steady decline in the health of Mao and Zhou in the mid-1970, the struggle for power and leadership succession among other Chinese officials intensified and spilled over to affect foreign policy in several key areas.

The radicals wanted to return to the rigidly orthodox foreign policy of the mid-1960s. In fact, however, the radicals appeared more interested in using the orthodox arguments to criticize the pragmatic policies of Zhou and Deng Xiaoping, for political gains in the struggle for succession in China. Chinese media, controlled by the radicals, began to sharply criticize trade with the capitalist countries. It was later disclosed that the Gang of Four had opposed China selling its oil and other resources to the "exploitative" capitalist countries and using the proceeds of such sales to purchase the "outdated" Western technology that would always keep China in an economically "subservient" position vis-à-vis the West, "trailing behind at a snail's pace" in the race for economic modernization and development.²⁰

²⁰ See article by Richard Batsavage and John Davie in U.S. Congress, Joint Economic Committee, *Chinese Economy Post-Mao*, Washington, D.C.: U.S. Government Printing Office, 1978.

Radical influence continued right up to the death of Mao Zedong in September 1976. As a result, their attacks temporarily disrupted or halted progress in certain foreign policy areas, but had little or no lasting or long-term effect.

II. Treaty and Agreement (1975-1979)

After the purge of the four radical Politburo members in October 1976, soon after Mao's death, a transitional period presided over by Hua Guofeng as Mao's successor in his role as chairman of the Chinese Communist Party ensued. In late 1976, Chinese leaders faced a host of internal problems, including a stagnant economy, a highly factionalized and cumbersome administrative structure, widespread public dissatisfaction with Maoist rule, and a cultural and intellectual life stunted by the dictates of Mao's ideology. Chinese foreign policy remained centered on a united front strategy focused against the Soviet Union, in which China stressed good relations with third world countries and attempted improvement in strategic, economic, and political relations with the United States, Japan and Western Europe.

Chinese officials focused on grappling with internal problems in order to lay a firmer foundation for Chinese economic development and political stability. At the same time, they attempted to capitalize on improved relations with powerful developed countries in order to solidify international resistance to the Soviet Union and gain the financial, material, and technical support needed for China's push toward the four modernization program. Japan was considered as a major resource at this time.

Despite a respectable average level of economic growth in the past, Chinese leaders had to face very serious problems in the industrial and agricultural sectors. By 1977, it was becoming apparent that poor planning, growing inefficiencies, and severe sectional imbalances had resulted in such failures as heavy investments in unneeded industrial infrastructure, wasteful use of energy and other raw materials, inadequate transportation, poor coordination of production activities, and flat agricultural growth. Economic progress increasingly became the litmus test of success or failure for the Chinese leaders. But the economic policies adopted by Hua Guofeng did not represent a clear-cut, coherent program; rather, they were the result of continuous institutional and policy changes to deal with specific problems as they emerged.

Effective economic development and pursuit of the four modernizations required reforms of China's political system. The reforms included changes in laws, institutions, and administrative practices, but at their heart were leadership changes. Following the death of Mao and the arrest of the Gang of Four, Chinese leaders inherited a massive administrative structure staffed by cadres seriously divided along ideological, generational, institutional, and factional lines. Decision making on economic development and other programs continued to be disrupted by such divisions, thus barring the establishment from a more unified and competent group at the top levels of the party, government, and army.

It was not until 1978 that a new group of leaders would appear who set the People's Republic on a course of radical economic reform. Domestic politics during this period of about four and a half years were characterized by constant maneuvering between various groups. It would be wrong to describe the struggle merely in terms of a clash between the 'radicals' and their "rightist" opponents.

Deng Xiaoping's return to power marked a new era in Chinese domestic policy that put unprecedented emphasis on the need for pragmatic efforts at economic modernization and sweeping political reform. Because of its continued relatively weak influence in Asian affairs, and the constantly growing Soviet pressure along its periphery, Beijing had little alternative but to continue to focus foreign efforts fundamentally on effectively managing the Soviet pressure. There was no significant change in China's basic strategy in foreign affairs. The more pragmatic, development-oriented domestic policies under Deng's leadership reinforced China's awareness that its interests required the use of effective diplomacy -- and closer ties with the West in particular -- to secure a peaceful and stable environment. Thus, the various shifts in foreign approach carried out during the period of Deng's leadership represented largely tactical adjustments to altered domestic and international conditions.²¹

Deng's strategy included two components in this transitional period of Chinese foreign policy. Internally, economic development replaced

²¹ Robert G. Sutter, *Chinese Foreign Policy -- Developments after Mao*, Praeger Publishers, New York, 1986, pp. 61-69.

"class struggle" as the primary goal for the country. Externally, economic development replaced the slogan of "world revolution" in China's foreign policy.

How did China's global strategy affect its bilateral relations with Japan? There is no simple answer. "If Japan and China cooperate, they can support half the Heavens," said Deng Xiaoping.²² Indeed, the prospect of a partnership between the world's second largest capitalist economy and the most populous and steadily modernizing socialist China was awesome. The diplomatic, economic, and military implications were bound to be profound and far-reaching in regional and global politics.

The Chinese, of course, were fully aware of the pivotal position of Japan in China's global foreign policy strategy. Indeed, Beijing's careful cultivation of its bilateral relations with Tokyo had been closely paralleling China's strategic calculations. For China, its foremost concern was to keep the tension in the region to a minimum. Internal divergence of opinions was compounded by dramatic changes in South-East Asia following the occupation of South Vietnam by the North. On the surface Chinese foreign policy remained consistently bent on fighting "hegemony." The practical content of this foreign policy line initially was mainly containment of Soviet influence, including an attempt to prevent a rapprochement between Japan and the Soviet Union. The particular concern was economic cooperation in the exploitation of Siberia

²² *People's Daily*, December 12, 1979.

resources. In the mid 1970s, Japan was tempted to consider developing strong trading links with the Soviet Union and to play a principal role in the development of the Soviet Far East. This alarmed the Chinese leaders for two reasons: first, because they might find themselves competing with the Soviet Union for Japanese investment and technology; and second, because any rapid development of the region might pose a strategic threat to China.

Meanwhile, Sino-Vietnamese relations had deteriorated rapidly throughout 1978, as Beijing backed the Pol Pot regime in Kampuchea against an increasingly Moscow oriented government in Hanoi. In early winter the Soviet Union and Vietnam signed a pact that gave Hanoi the confidence it needed to launch an invasion of Kampuchea without fear of a Chinese counterattack. Deng strongly advocated a retaliatory strike against the Vietnamese. He wanted to establish full diplomatic relations with Washington and to conclude a treaty of peace and friendship with Tokyo first so as to gain additional protection against Soviet pressure during China's action against Hanoi. The signing of the Treaty of Peace and Friendship and the inclusion of an antihegemony clause in the treaty were clearly calculated Chinese moves in winning the Japanese to China's side in the Beijing-Tokyo-Moscow triangle. A strong tie with Japan would consolidate China's strategic position in the Pacific Asia area.²³

²³Robert G. Sutter, *Chinese Foreign Policy -- Developments after Mao*, Praeger Publishers, New York, 1986, pp.76-77.

For the purposal of getting Japan on its side, China handled a sensitive bilateral issue very carefully and flexibly. In May 1978 more than one hundred Chinese fishing boats, equipped with electronic gear, sailed around the Diaoyu Islands with signs claiming them for China. These unpopulated rocky outcroppings located between Taiwan and the Ryukyu Islands had long been a point of dispute between Beijing and Tokyo, especially after the early 1970s when experts estimated the large oil deposits might be located on the continental shelf. That fall, Deng Xiaoping turned away queries at a Tokyo press conference by suggesting the issue could “be handled better by the next generation.”²⁴

The stalemate in peace treaty negotiations hindered the development of a closer relationship with Japan and annoyed the Beijing leaders who were eager to import high-technology products and obtain financial support from Japan. The urgency of concluding a peace treaty with Japan was heightened by the intensifying dispute with Vietnam over Indochina and the latter's drifting toward the Soviet Union that aroused Beijing's concerns about Soviet encirclement from the south.

The signing of a peace treaty with Japan would serve as a counterweight, from Beijing's perspective, to the Soviet-Vietnamese alliance and forestall a similar, though very unlikely, Soviet-Japanese cooperation. In an apparent attempt to break the deadlock in negotiations, Deng Xiaoping indicated in March 1978 that the inclusion of the antihegemony clause in the peace treaty would not imply joint

²⁴ Allen S. Whiting, *China Eyes Japan*, University of California Press, Berkeley, Los Angeles, 1989, pp.68-69.

Sino-Japanese action against a hegemony-seeking third power. He agreed that Japan and China each had its own foreign policy and should make its own independent decision in such matters.²⁵ Finally, the Chinese reluctantly accepted the Japanese proposal to include an article in the treaty which read: "The contracting parties declare that neither of them should seek hegemony in the Asia-Pacific region or in any other region and that each is opposed to efforts by any other country or group of countries to establish such hegemony."²⁶ With the inclusion of this additional clause, the Japanese could tell the Soviet Union that the anti-hegemony clause should not be considered as anti-Soviet.

If, as was sometimes suggested, Chinese leaders were seriously making a bid for closer defense relations with Japan at this time, they had miscalculated. Japan was anxious to avoid involvement in the Sino-Soviet rift, and China's insistence on the inclusion of the controversial anti-hegemony clause in the Treaty of Peace and Friendship placed a strain on relations.

On the Japanese side, there were signs, however, of a changing mood in Japanese society favoring an early conclusion of a peace treaty with PRC by the fall of 1977. The Japanese business community, facing increasing difficulty in trading with the United States and Western European countries, was eager to expand trade with China. The Sino-

²⁵ *People's Daily*, March 15, 1978.

²⁶ James C.F. Wang, Treaty of Peace and Friendship between the People's Republic of China and Japan, *Contemporary Chinese Politics*. Prentice-Hall, Inc. 1980, p.304.

Japanese Long Term Trade Agreement(LTTA), based on the principle of balanced exchange, was signed on February 16, 1978. The LTTA between China and Japan in February 1978 heralded a new era in Sino-Japanese economic relations and augured well for the strengthening of diplomatic ties. It was the first attempt to give substance to the basic principles for Sino-Japanese trade relations which had been established four years earlier in the China-Japan Trade Agreement. It targeted a total trade of \$ 20 billion over five years. The volume of Sino-Japanese trade increased from \$5.1 billion in 1978 to 10.4 billion in 1981. The new eight-year trade pact laid down a detailed purchasing schedule calling for a total bilateral trade of about \$20 billion during the period 1978-1985, with export of approximately \$10 billion emerging from each side. It was projected that during the first five years (1978-1982) Japan would export to China plant and technology amounting to \$7-8 billion, and construction materials and machinery totaling \$2-3 billion. During the same period, China would export 8-9 million tons of coal and 47.1 million tons of crude oil to Japan. Although the LTTA was not an inter-government agreement, its preamble made it clear that Chinese and the Japanese LTTA Consultation Committee responsible for negotiating the pact had received the support of their respective governments. Thus it was here that the notion of complementary economic relations between two nations first received official sanction.

Clearly, the image of China's natural resources providing Japan's modern economy with energy and raw materials while Japan's technology and capital helped China's modernization (and incidentally fostered a vast market for Japanese goods) seemed attractive to both

governments, and this created a climate conducive to the speedy completion of the long awaited Treaty of Peace and Friendship.

Domestic pressure for the resumption of treaty negotiation with Beijing increased as the leaders of big business were convinced that the peace treaty was a prerequisite for signing lucrative trade agreements between China and Japan. This pro-treaty mood was boosted, ironically, by Soviet attempts to block Japan's move toward concluding a peace treaty with China. The unyielding Soviet position on its territorial dispute with Japan and its refusal even to discuss the issue during Foreign Minister Sunao Sonoda's visit to Moscow in January 1978 further infuriated the Japanese. Seeing no improvement of Soviet-Japanese relations, the Fukuda Cabinet decided to tilt toward China and reopen the treaty talks with Beijing in March 1978.

The Sino-Japanese Treaty of Peace and Friendship was concluded and signed in Beijing on August 12, 1978, less than three weeks after the renewed treaty negotiation. The treaty was to remain in force for ten years, during which time both countries pledged to adhere to the five principles of peaceful coexistence, to seek no hegemony in the Asia-Pacific region, to promote the exchange of people, and to promote cultural and economic relations.²⁷ Establishing a solid legal foundation for China and Japan's reconciliation, the treaty ushered in a new era of diplomatic relations.

²⁷ James C.F. Wang, Treaty of Peace and Friendship between the People's Republic of China and Japan, *Contemporary Chinese Politics*. Prentice-Hall, Inc. 1980, pp.303-304.

What were the implications of the Sino-Japanese peace treaty? First, it officially ended the long standing animosity between the two countries and opened a new chapter of equal relations between China and Japan. Second, it was the first major treaty containing the "anti-hegemony" clause, which represented a Chinese victory over the Soviet Union in the race to court Japan. With this peace treaty and the Shanghai Communiqué, which also contained an anti-hegemony clause, China felt perhaps less isolated in the new Asian balance of power. Third, the Chinese could look forward to an expanding long term program of modernization, since Japan could supply a large portion of China's requirements for machinery and technology.²⁸ Similarly, Japan could count on China to supply needed raw materials and even light industrial goods, which were more expensive for it to produce. Fourth, the conclusion of the Sino-Japanese Peace and Friendship Treaty showed that neither the Taiwan problem nor the US -Japanese Security Treaty, originally aimed at containing possible Chinese communist expansion in Asia, was a barrier to a permanent relationship based on friendship and mutual respect. Finally, Chinese flexibility and accommodation on the anti-hegemony issue in the peace treaty with Japan may have provided clues for strategies to normalize relations between China and the United States. It was no coincidence that four months after the conclusion of the Sino-Japanese peace treaty a breakthrough was reached in negotiations between Washington and Beijing concerning the

²⁸ See "Vice Premier Deng Xiaoping at Tokyo Press Conference: New upsurge in Friendship relations between China and Japan," *Beijing Review*, November 3, 1978, p.15.

establishment of diplomatic relations between the two countries. An antihegemony clause similar to that included in the Sino-Japanese treaty was also inserted in the Washington-Beijing joint communiqué of December 15, 1978, which announced the establishment of formal diplomatic relations between the PRC and the United States.

Tokyo was regarded by the Chinese leaders as the indispensable coordinator in the Beijing-Tokyo-Washington triangle and in its united front strategy. The Chinese government publicly acknowledged that the US-Japanese security treaty played an important role in stabilizing Asian security. Deng Xiaoping himself commented on that point to a group of visiting Japanese editorial writers on September 6, 1978, saying that Japan's relationship with the United States was more important than its relationship with China.²⁹ Beijing was convinced that only a strong American-Japanese military alliance could serve as a countervailing force to the expanding Soviet navy in the Pacific.

Despite Beijing's failure to win unqualified Japanese support for its anti-hegemony clause in the Treaty of Peace and Friendship, the Chinese remained keen to encourage a strong Japanese defense posture as an essential deterrent against Soviet aggression in the Pacific region. Thus, through the early 1980s, China displayed unprecedented support for Japan's self-defense arrangements and for its defense treaty with the United States.³⁰ In May 1980, for example, China's deputy Chief of

²⁹ Shinkichi Eto, "Recent Developments in Sino-Japanese Relations," *Asia Survey* 20, No.7, July 1980, p.736.

³⁰ *People's Daily*, May 4, 1979.

General Staff, Wu Xiuquan, was widely reported to have intimated to Nakasone, that there was nothing strange about Japan becoming a military power, and that should Japan raise its defense spending to the equivalent of 2 percent of the GNP it would be a “domestic affair of Japan.”³¹

The conclusion of the Treaty of Peace and Friendship, following so soon after the Long Term Trade Agreement, led many Western observers to wonder about the possibility of Sino-Japanese military cooperation. The truth is that throughout the 1980s, Beijing continued to call for increased military contacts with Japan, but the emphasis shifted in an effort to engage Japanese assistance in China's military modernization program, particularly in personnel training and the transfer of technological know-how. As early as 1982, Japan was keen to dispel any rumors of Sino-Japanese military collaboration and China was reaffirming its independent policy. China's policy of independence in its relations with the superpowers was welcomed in Tokyo, as was the apparent relaxed stability in Sino-Soviet relations.

The conclusion of the Treaty of Peace and Friendship (TPF) meant that the tasks set out in the 1972 Tanaka-Zhou communiqué had been accomplished. The establishment of diplomatic relations in 1972 had not immediately ended “people's diplomacy.” Until 1978 contacts at government level had remained limited, both in quantity and level. Both governments agreed to hold annual high level consultations between

³¹ *Japan Times*, May 1, 1980.

Foreign Ministry officials alternately in Beijing and Tokyo in 1979. Deng Xiaoping's visit, and a second brief stopover on his return from Washington indicated a qualitative change in relations between Beijing and Tokyo. Deng's direct involvement in confidential and public contacts with Japanese leaders automatically reduced the relative importance of the old generation "Japan specialists." High ranking Japanese delegations were received by Deng Xiaoping and Hua Guofeng. The impression was of a qualitative change in PRC's relations with Japan which were increasingly dominated by the need to maintain and expand a complex economic relationship, which in turn demanded regular contact and consultations very different from those of the heyday of "people's diplomacy."

There was little doubt about the Chinese eagerness and sincerity to learn from Japan's successful modernization experience and to cooperate with the Japanese in developing China's backward economy. At a press conference held in Tokyo, October 1978, Deng Xiaoping appealed to the two people to forget the unfortunate past and to forge ahead with more friendly contacts.³² The Chinese government urged its people to erase the deep-rooted hatred against the Japanese and stressed the importance of Japan's valuable experience to China's modernization programs by presenting the Chinese people a highly favorable picture of Japanese society -- blessed with economic prosperity, political stability, and low crime rates.

³² *Beijing Review*, November 3, 1978, p.14.

Many Japanese were impressed and flattered by the expressed Chinese eagerness to learn from their successful modernization experience. China again looks up to Japan, as it did at the turn of the last century, for training a new generation of scientists and technicians. Hundreds of Chinese students were sent to study at various universities and institutes in Japan. The Japanese government cooperated by providing special language-training programs for prospective students. Japanese has rapidly replaced Russian and has become the second most popular second language (after English) in China.

Numerous Chinese delegations representing people from all walks of life including trading officials, economists, educators, scientists, and engineers came to Japan to seek guidance; the number of Chinese visitors to Japan increased tenfold since the normalization of relations and surpassed ten thousand in 1979. They were very humble and quick to admit the backwardness of China's economy and technology and were extremely flexible in dealing with the Japanese. Some Japanese were surprised, considering the big gap in ideology and the prolonged separation and lack of communications between the two peoples, to find many striking similarities between the Chinese and themselves, which they could not even find in their contacts with Americans with whom they have maintained close relations for more than three decades. Indeed, such a deep consciousness of feelings of closeness toward China may continue to bind Tokyo to Beijing in a subtle yet not insignificant way.

In 1978, many Japanese business leaders rushed into the Chinese market without examining China's economic and political realities. By 1979, nearly four dozen contracts were concluded in this bullish atmosphere. They added up to more than \$ 3.8 billion in plant equipment. The most spectacular agreement concerned a gigantic steel plant to be built at Baoshan, near Shanghai, with an annual capacity of six million tons each year. Several billion dollars more of ongoing contract negotiations whetted the appetite of Japanese entrepreneurs, who were described at the time as succumbing to "China fever."

Because of history and cultural affinity, the Japanese had long developed some kind of emotional attachment to China. Many regarded China as their "half brother." These feelings of intimacy were reinforced by a strong sense of postwar guilt toward the Chinese. Many Japanese regretted the tremendous damage the imperial Japanese armies had caused in China and felt that their country should repay this debt. Yet the Japanese attitudes toward their neighbor, based primarily on their perceptions or images of China, have undergone several crucial turnarounds since 1949. When Mao declared the establishment of the People's Republic in 1949, Japan faced for the first time in more than a century a unified and rigorous China promising one day to become a major actor in world politics. Meanwhile, Japan was struggling for economic survival from the shambles of the war. The emergence of a strong socialist China thus revived some of the old inferior feelings toward China among the Japanese. The Japanese intellectuals in particular were awed by the prospect of a revolutionary socialist China endowed with Marxist-Leninist ideology. Some suggested that Japan

might once again learn from the Chinese model as it had done for more than one thousand years prior to the Meiji era.

This admiration for a new socialist China, however, soon evaporated after the radical leftists led China into political chaos and economic disaster. The Japanese felt puzzled by the policy blunders of the Great Leap Forward and the political anarchy, especially the rebellious Red Guards, of the Cultural Revolution. When it happened, the PRC seemed to have confirmed the old Japanese saying that China was just too big a country and the Chinese people too disorganized to be effectively ruled by any government. Moreover, the downfall of the Gang of Four, who were regarded by some Japanese as true revolutionaries, shattered any lingering illusions or images of a revolutionary China. The usually biased Japanese press toned down markedly favorable reports from China. The increase of Japanese visitors including government officials and private delegations to China after the establishment of formal diplomatic relations between the two countries in 1972 also helped to dispel the myths about socialist China. More and more Japanese began to see and understand the real China, -- a huge country encountering problems similar to other developing states in finding its way toward economic prosperity and political stability.

As pointed out by one keen observer of Japan's foreign relations, past Japanese patronizing attitudes toward the Chinese were based primarily on sympathetic concerns about a feeble and backward China.³³

³³Yoshikazu Sakamoto, "Sino-Japanese Relations in the Nuclear Age," *Journal of Social and Political Ideas in Japan*, No.3 (December) 1966, p.64.

It is conceivable that a strong and modernized China would wipe out any remaining sentimental linkage between the two peoples. To many Japanese, China has no doubt already achieved the great power status and scored impressive accomplishments in its history. It is also true, however, that China's progress in the last four decades fell far behind Japan's miraculous economic growth. After all, China is still a poor and technologically backward country. Many Japanese have been inclined to believe that Japan, because of history and cultural affinity to China, should have the responsibility to assist the Chinese in their modernization drive.

Japanese did not seriously consider the fundamental difference of their political, economic and social systems. What motivated them were the traditional and unique sentiments that the Japanese felt towards China. The feeling of the Japanese business community at this time was eloquently summed up by the president of the Osaka Chamber of Commerce, Isamu Saeki, when he described China as "a huge, dynamic reborn nation."³⁴ But part of the hidden agenda was a strong feeling of guilt towards China. Few Japanese business leaders at the time foresaw that China would be forced to make radical adjustments in its economic policy and abruptly cancel a great many contracts with foreign firms -- including the \$1.1 billion contacts for the Baoshan Steel Complex near Shanghai, the show piece of Sino-Japanese economic cooperation.

³⁴ *People's Daily*, January 17, 1980.

For China, the Long Term Trade Agreement was an attempt to convince skeptical Japanese of China's commitment to a more open economic policy, and to discourage the involvement of Japan in the Siberia development project, -- a matter of considerable concern to Beijing for both economic and strategic reasons.

As for Japan, the impressive contracts would strengthen Japanese steel and plant industries, but there was little confidence among oil refiners that China would prove a reliable supplier of raw material, and a great deal of concern that they would have to purchase waxy crude oil at inflationary prices.³⁵ Nevertheless, by establishing what amounted to a national trading policy with China, Japan undertook a tacit commitment to help China's modernization. The intimate relationship between industry and government in Japan boded well for Sino-Japanese relations, but the LTTA was formulated with total disregard for the true backward state of the Chinese economy, and consequently came to strain the very relationship which it had been intended to cement.

In 1978 China's domestic industrial reform was still in an embryonic stage. Even those in Beijing who whole - heartedly backed the reform program were uncertain what course it would take or what obstacles it would encounter.

Furthermore, although China's leaders had generally accepted that reform of foreign economic policy was an essential prerequisite for

³⁵ *Far Eastern Economic Review*, March 3, 1978, p.40.

modernization, it was unlikely that they could have foreseen the tremendous impact that the new foreign economic policy was to have on the domestic economy. The uncertain domestic economic environment in which China concluded the LTTA, combined with the un-preparedness of the Chinese for modern business methods, their shortage of trained people and their lack of understanding of markets and production, should have been strong indications that the implementation of the agreement would encounter considerable difficulties. The Chinese enthusiasm for the LTTA may be explained partly by naiveté and partly by the conviction that risks had to be taken in order to set the modernization program in motion. The two basic principles underlying the LTTA --that China's energy could be exchanged for Japanese technology and that by promoting bilateral trade it would be possible to maintain a balanced budget -- reflected a disconcerting ignorance of the history of economic relations between developed and developing countries; yet, like other developing countries, China's options were limited.³⁶

The Japanese were obviously better equipped to appreciate the risk involved. The Japanese negotiators of the LTTA had expert knowledge of the international economy; they had first hand experience of China's particular problems and access to economists, technicians and administrators trained specifically in the problems facing developing countries. It might be that Japanese appeals for a more cautious approach went unheeded, but the Japanese themselves were probably

³⁶ Gerald Segal ed., *Chinese Politics and Foreign Policy Reform*, Royal Institute of International Affairs, London, 1990, pp.197-205.

infected by Chinese enthusiasm for the Agreement, as was evidenced, for example, by unrealistically high projections of Japan's oil imports from China. In any event, the fact remains that although both sides took economic risks, the Chinese bore the burden of knowing that the success or failure of these foreign economic ties would have direct consequences for their domestic politics and the future of the reform program. Japan's interest in the Agreement was far less vital from its own national economic and political perspective; yet had Japan not been party to the LTTA, China would have been forced to find an alternative partner, which may in the long term have proven to be detrimental to Japan's political strategic interests.

Undeniably, the Agreement had a catalytic effect on Sino-Japanese commodity trade. Two-way trade in 1978 rose from \$3.4 billion in 1977 to a record \$5 billion, but in the same year China's trade deficit with Japan almost doubled to reach \$1 billion. During the next two years, as bilateral trade edged its way towards the \$10 billion mark, the surplus for Japan levelled off. Trading figures for this period gave the impression that China's economy was booming with vitality. It was, in fact, a period of chaos in management and stagnation in production. The credibility of the ten-year development plan, announced by Premier Hua Guofeng on February 26, at the first session of the 5th National People's Congress,³⁷ with its emphasis on the high-speed development of China's heavy industry, had owed much to the concussion of the LTTA. However, the plan and the Agreement combined to create economic havoc. In what

³⁷ *People's Daily*, March 3, 1978.

most clearly resembled a wild shopping spree, the Chinese concluded hundreds of contracts for foreign plants and equipment.

The initial LTTA was re-negotiated in March 1979 and the two sides agreed to extend the effective period from eight years(1978-1985) to thirteen years(1978-1990). The agreed amount of trade was expanded from the original US\$ 20 billion to US\$ 60 billion for the period covered by the agreement. The Chinese promised the Japanese a steady supply of oil and coal in the coming years while promising to import high-technology products and complete industrial plants and equipment from Japan. The two way trade between the two countries soared to over US\$ 9 billion in 1980, a US\$ 2 billion increase over the previous year and more than double the trade value of 1977. More importantly, perhaps, the value of Sino-Japanese trade has consistently surpassed the value of Soviet -Japanese trade since 1977.

Furthermore, the Chinese were seeking loans from the Japanese government and commercial loans from Japanese banks. Commercial loan agreements of more than US\$ 10 billion were signed in 1979 and 1980 between the Bank of China and the Bank of Tokyo and other Japanese banks. In addition, the Ohira Government offered to lend the Chinese US\$ 1.5 billion low interest loans for China's ambitious infrastructure projects and to help the Chinese to explore the supposedly oil rich Bohai Bay. Prime Minister Masayoshi Ohira pledged that Japan would try every feasible way to help China modernize. As a symbol of friendship between the two countries, Ohira promised to assist in building a memorial hospital in Beijing, to be equipped with advanced

technology and facilities. In return, the Chinese government promised Japanese business leaders that China would implement the contracts which were suspended in February 1979.

Nevertheless, 1978 was a fruitful year for Sino-Japanese relations, though there were some unpredictable factors that would impact the honeymoon. The Central Work Conference of the CCP on November 1978 marked a turning point in post-Mao China. At this meeting, Deng Xiaoping culminated his effort to make economic development -- encapsulated in the phrase the Four Modernizations -- the goal for all activity in China. This effort entailed attacking the more pro-Maoist members remaining in the leadership, and positing that in the future even the Communist Party's work would be judged according to whether or not it promoted a pragmatic strategy of economic development. Deng's initial steps in political change were slow and incremental. Maoist loyalists were gradually removed from power, and more programmatic and technically competent leaders were appointed to direct the day to day affairs. Provincial level posts changed hands, as many leaders removed during the Cultural revolution were returned to power.

Within months the economy was overheated and running into severe difficulties. By December 1978, with foreign currency reserve down to \$1.6 billion, it was apparent that the Ten-Year Development Plan was unrealistic. It was revised at the third plenary session of the 11th Central Committee of the CCP and the following June, at the Second Session of the 5th National People's Congress, a three-year adjustment plan was formally initiated. It came under the slogans of "Readjustment, restructuring, consolidation and improvement." Chinese assumptions,

however, proved wholly unjustified. Oil output did not increase, but domestic demand did. Foreign exchange earnings fell far short of expectations. Moreover, Chen Yun, China's top planning official, severely criticized the overall design because of China's financial difficulties. Beijing was compelled to scale down its modernization programs. This development inevitably had damning effects on Sino-Japanese trade.

Deng's domestic strategy as of late 1978 assumed that substantial foreign assistance could be obtained both in the form of technological transfers and through direct capital acquisition. Deng saw the United States as key in this program for several reasons. First, he assigned last priority to military spending in the allocation of funds, but this in turn presumed a relationship with the United States that would afford additional protection against Soviet pressure. Second, Deng believed close Sino-U.S. relations would give all foreign businessmen the confidence to make substantial investments in the PRC. For reasons of both domestic and foreign policy, therefore, Deng sought a pro-Western foreign policy during the period.

For the proposal of promoting bilateral relations, Beijing arranged, with the cooperation of the Japanese government, the visit of a group of Japanese nationals born in China during the war years to Japan in the autumn of 1980. The dramatic television scene showing the reunions of China-born Japanese and their parents touched the hearts of millions of Japanese and highlighted the emotional linkage between the two peoples. Japanese parents were also invited to China searching for their lost sons and daughters. Moreover Japanese television networks were granted

access to Chinese made documentary films, featuring the mystique of China's society and its gorgeous historical sites and picturesque landscapes. The NHK's program "The Silk Road," for example, had glued many Japanese viewers to their televisions. At the same time, sports, concerts, arts, and other cultural exchanges sharply increased. The Japanese were particularly impressed by the glamorous archeological exhibits from China, which gave them a new sense of pride in their cultural heritage from this ancient kingdom.

Summary & Conclusion

From the review of history given in this chapter, it seems clear that the changes at the global level appeared as the major motive for China to establish good relations with Japan during the period between 1972-1979.

To begin with, the bipolar system, which emerged after World War II, developed into a new strategic triangle.³⁸ In the bipolar system, Beijing and Washington were bitter enemies. As the system changed, however, the new balance of power realities caused both countries to seek normal relations to counterbalance the Soviet Union. As the most important ally of the United States in Asia, Japan occupied a significant position in the mind of Chinese leaders, because of Japan's critical role in the regional power balance. A strong tie with Tokyo would enhance an united front against the Soviet Union. Premier Zhou indicated to Primer Minister Kakuei Tanaka that he could even imagine circumstances under which China would come to Japan's aid, possibly alongside the United States in the event of a Soviet attack.³⁹

Secondly, under the changing international system, economic factors seem to be playing a stronger role in world politics than before. National power became increasingly a function of a country's economic

³⁸ Kim, Ilpyong, *The Strategic Trangle: China, the United States and the Soviet Union*, New York: Paragon House Publishers, 1987.

³⁹ William Beacher, "Zhou is Said to Have Given Japan Military Assurance." *The New York Times*, December 14, 1972.

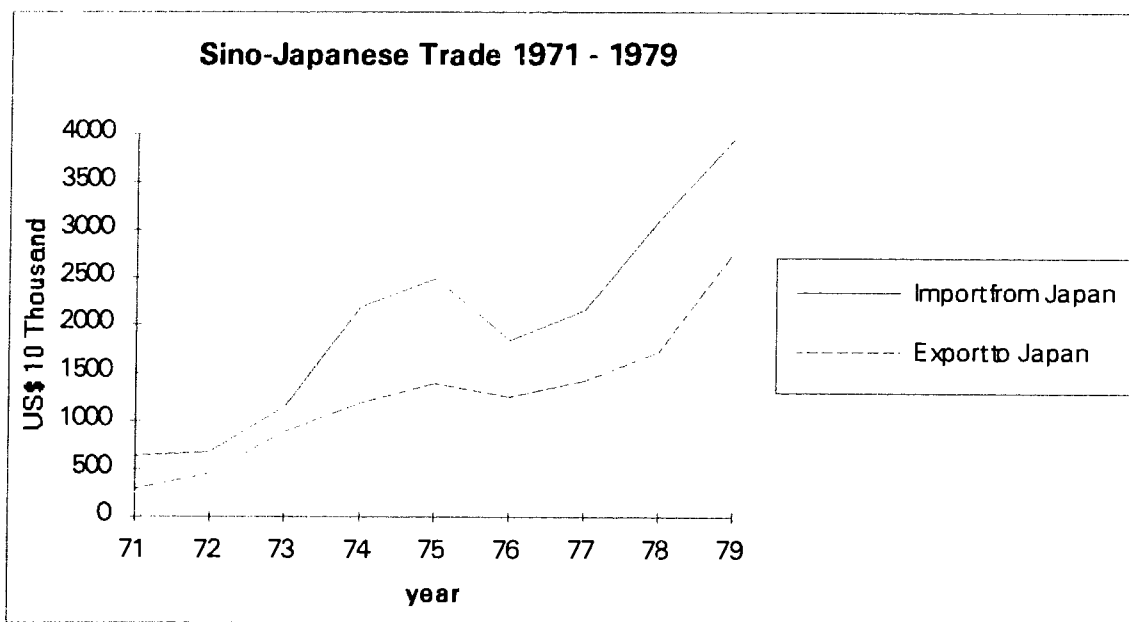
strength, rather than its military forces alone. As the only industrialized country in Asia, Japan is the most important resource for Beijing to obtain financial support and technical aid for its modernization program.

However, history shows a more positive influence on Sino-Japanese relations during this period. The smooth and rapid development of Sino-Japanese relations from 1972 to 1975 was due to the efforts of Premier Zhou Enlai, and the assistance of Mr. Liao Chengzhi. It could be traced to the period before the two countries normalized their diplomatic relations. The Chinese policy at the time was to concentrate on a campaign of “people’s diplomacy.” As first generation revolutionary leader, Zhou and Liao had studied in Japan when they were young. Such a personal experience gave them a special feeling toward Japan and the Japanese people, and better equipped them to deal with specific problems. Both of them commanded the wide respect of the Japanese people and developed very close personal relationship with their Japanese friends from different social groups. Under the leadership of Zhou, a group of Chinese officials with the the experience of studying or living in Japan was mobilized to be engaged in Sino-Japanese affairs. They established wide connections with Japanese from different groups.

The conclusion of the Treaty of Peace and Friendship and the Long Term Trade Agreement in 1978 marked a new era in Sino-Japanese relations. It meant that the task set out in the 1972 Tanaka-Zhou communiqué had been accomplished. The “People’s Diplomacy” based on the traditional friendship also came to an end. The old generation of “Japan specialists”, like Mr. Liao Chengzhi, became less important in the

Sino-Japanese relations thereafter. The normal official channel has since replaced the non-official channel of the “people’s diplomacy” period.

The influence of China’s domestic situation on Sino-Japanese relations during this period seemed relatively insignificant. It was also true that a power struggle within the Chinese leadership had its impact on bilateral relations. Sino-Japanese trade declined for the first time in 1976 since 1971. The slow progress of the Treaty of Peace and Friendship negotiations was also caused by the divergence of opinions on foreign policy within Chinese leadership.



Source: *Direction of Trade Statistics Yearbook*, International Monetary Fund, various years.

The most important change in China’s domestic political situation since 1978 was that China has started on a course of reform under the leadership of Deng Xiaoping. For the first time in the history of the People's Republic of China, its leaders have set economic development as their principal goal in order to modernize the country. To carry out the modernization drive, China has pursued a policy of opening up to the

outside world and of domestic economic reform. Meanwhile, Chinese foreign policy has also undergone a significant change. The country's foreign policy has become less radical, less ideological and more pragmatic and sophisticated. The main target of Chinese foreign policy was to establish a safe international environment so as to secure the economic development and to implement the four modernizations program.

CHAPTER III

1980 -- 1989

The changing international environment and the domestic situation in China inevitably infused new pressures into Sino-Japanese relations and even added potential sources of friction. The reduced tension in the international system resulted in the changes of China's foreign policy. Deng Xiaoping's reform caused changes in the Chinese political and economic structures which directly influenced relations between China and Japan. The honeymoon was over by 1979 and both countries started to view each other from a more practical perspective.

I. Controversial Years (1980-1983)

In February 1979, only two months after the ground-breaking ceremony and starting of the construction of phase one of the Baoshan Steel Complex, China informed the Japanese main contractor -- Nippon Steel Corporation -- that the project was suspended because of a shortage of funds. At the same time, twenty three other plant contracts with Japanese manufacturing and trading companies were suspended for the same reason. These contracts were worth an aggregate of \$2.1 billion, for which orders had already been placed with hundreds of Japanese enterprises. The Baoshan steel complex lost an estimated \$1.3 billion in Japanese orders as a result of the cancellations..⁴⁰ This unfortunate turn of events left Japanese shocked and angered. The

⁴⁰Ryosei Kokubun, "The Politics of Foreign Economic Policy Making in China: The Case of Plant Cancellations with Japan." *The China Quarterly*, no.105 (March 1986). pp.19-43.

Japanese firms involved in the project protested and demanded compensation for the cost already undergone in plant preparation.

In many ways, the Baoshan Steel Complex has taken on a symbolic meaning for both China and Japan. The sheer magnitude of its size and value (close to \$4 billion) made the Baoshan Steel Complex an important factor in Sino-Japanese economic and political relations.

After several rounds of negotiations between officials from both governments and the concerned Japanese companies, all of these contracts (except one) were validated by China. But on November 21, 1980, China officially declared that it had decided to postpone the second phase of the Baoshan Steel Complex, which would not begin until well after the first phase was in full operation, thereby cutting its original output target in half, from six to three million tons per year. Then in January 1981, the Japanese business community was shocked by yet another Chinese revelation that several other plant contracts would be postponed, again caused by China's ongoing policy of economic readjustment and a general lack of funds. These cancellations amounted to \$1.5 billion, a considerable sum even for Japan.

Due to domestic pressures, the Japanese government sent its special trade representative, former Foreign Minister Saburo Okita, to China on February 10, 1981, in order to discuss the precarious situation with Chinese leaders. Both Deng Xiaoping and Vice Premier Gu Mu assured Okita that China would accept responsibility and compensate Japan for losses from China's plant cancellations in accordance with

international trade practices. During Okita's conversations with Gu Mu and Deng Xiaoping, Gu and Deng hinted that China might be willing to reconsider the cancellations provided that there was a possibility to obtain soft loans from Japan for the revitalization of the projects.⁴¹

In September 1981, after protracted negotiations, Japan made a final offer to China through its ambassador in Beijing, offering China loans in the amount of \$1.3 billion at a three percent interest rate for thirty years with a ten-year grace period. The loan would fund six major construction projects, including Baoshan. The Japanese offer was accepted in principle.

As a result, most of the contracts canceled in January 1981 were revived. China also agreed to compensate Japanese firms, but compensation amounted only to \$46 million in total or about half of that originally requested by the Japanese companies. China viewed its willingness to compensate Japanese firms as a demonstration of goodwill, whereas the Japanese parties concerned regarded it as their inalienable right.

1982 was an exceedingly disappointing year for Sino-Japanese economic relations given Japan's set back in the Chinese market. In this year, Japan's China-bound exports of equipment, plants, machinery and consumer durable had dropped sharply as a result of China's continuous economic "readjustment." Sino-Japanese trade was down for the first

⁴¹ *China News Letter*, No 31, March 1981, p.3.

time since 1976. Two-way trade dropped to \$8.9 billion, from \$10.4 billion, in 1981.

The 1979 and 1980-1981 cancellations together constituted 59.6 percent of all foreign plant contracts worth \$4.1 billion concluded at the time. By comparison, West German suspensions totaled only \$783 million and both American and British totals were well under \$100 million each.

This seesaw pattern of trade and contracts between 1979 and 1982 occasioned wild swings of euphoria and resentment in Japan. The perceived vast potential of the China market contrasted with the seemingly unpredictable nature of Chinese economic policy. The Japanese vividly remember this period and their subsequent cautious approach to investment in China is readily understood. In the short run the Chinese were able to resolve their problem, but in the longer run the contract cancellations of 1981 marked the end of the Japanese business community's honeymoon with the Chinese market, and the beginning of a much more calculated approach to trade and investment in China.

These statistics notwithstanding, the 1978 Long Term Trade Agreement had clearly failed to foresee the problems, particularly on the Chinese side, that were impeding the realization of the agreement's goals.⁴² Instead, there was general agreement that if a genuinely close and harmonious relationship were to be sustained, a serious and

⁴²By the time the agreement expired, neither side was interested in negotiating a successor.

systematic mutual effort would be required to cope with both new and old problems.

By 1982, however, the political mood was changing. Japan and China experienced growing difficulties in dealing with some difficult bilateral issues. The first serious dispute in Sino-Japanese relations after the diplomatic normalization and the conclusion of the Peace and Friendship Treaty came in the summer of 1982 when China opened its strong campaign of criticism against Japan's move to revise its school textbooks.⁴³ The year 1982 was the 10th anniversary of normalization, and the dispute underlined the sensitivity still felt by both sides towards their bitter confrontation in the past. In this incident, the Chinese government officially blamed Japan's Education Ministry for a move to "distort" Sino-Japanese history by watering down and glossing over past war activities in the process of screening Japanese history textbooks. This developed into a serious diplomatic dispute between Japan and China.

The Chinese touched upon this issue for the first time in a Xinhua News Agency's report from Tokyo of June 26, which did not carry any commentary with it. This was on the day before the Education Ministry was to finish its screening of school textbooks. The report itself was a very quick response, but it was not carried by the *People's Daily* and was not mentioned on air by Beijing Radio. On June 30 the *People's Daily* for the first time carried a report, without any commentary, entitled "Japan's

⁴³Richard K. Nanto & Hong K. Kim, "The Developments of Sino-Japanese Relations," *Current History*, September 1986, p.253.

screening of textbook distorts history and beautifies invasion."⁴⁴ From that day until July 19, however, the Chinese Government kept silent on this issue and no further report was found in the Chinese official statements. However, on July 20 the *People's Daily* took up the issue again and thereafter China began a strong campaign of criticism against the Japanese Government.⁴⁵

On July 24, the Chinese Government made an official protest to the Japanese Government through the diplomatic route. Xiao Xianqian, director of the First Asian Bureau of the Chinese Foreign Ministry, told Koji Watanabe, Japan's minister in Beijing, that "the Education Ministry of Japan in screening history textbooks, falsifies the history of Japanese militarists aggression against China by changing the words from 'aggression against China' to 'total advancement to North China.' This way of doing things is apparently intended to distort the real facts of history and we cannot agree with it. The Chinese Government hopes that the Japanese Government will correct the mistakes of the textbooks which the Education Ministry screens."⁴⁶ As a result, the issue, which was originally Japan's internal affair, became a serious diplomatic question.

In response to the Chinese protest the Japanese Government directed Minister Watanabe in Beijing on July 28 to explain that the

⁴⁴ *People's Daily*, June 29, 1982.

⁴⁵ *People's Daily*, July 20, 1982.

⁴⁶ *People's Daily*, July 27, 1982.

Japanese position was that the Japanese Government view of the war had not changed the spirit of the Sino-Japanese Communiqué, although the Japanese Government took seriously the demand by the Chinese Government. On July 29, moreover, Japan's Education Minister called upon Wang Xiaoyun, China's minister in Tokyo, and explained that textbooks were written and edited by the private sector, while the government is only in a position to screen them. Minister Wang expressed dissatisfaction, saying that the Education Ministry was transferring the responsibility of the textbook revision to the private sector and that the ministry's screening of textbooks was against the spirit of the Sino-Japanese Joint Communiqué and the Sino-Japanese Peace and Friendship Treaty.⁴⁷

Around this time, furthermore, the *People's Daily* openly blamed some members of the Liberal Democratic Party for supporting the Education Ministry by saying that China's criticism was tantamount to an intervention in Japan's domestic affairs. Under the circumstances, the Chinese Government canceled, on August 1, the planned visit of Education Minister Ogawa to China and began to take the position that it might also reconsider the planned visit of Prime Minister Zenko Suzuki to China in late September.⁴⁸

On August 5, the Chinese upgraded its negotiation channel as Wu Xueqian, vice-minister of China's Foreign Ministry, summoned Yasue

⁴⁷ *People's Daily*, July 30, 1982.

⁴⁸ *People's Daily*, August 2, 1982.

Katori, Japan's Ambassador in Beijing, and repeatedly stated that Japan's Education Ministry was trying to avoid taking responsibility for the mistakes in textbook screening and the Chinese Government still called for the correction of textbooks.⁴⁹ In response to this harsh criticism from China, the Japanese Government sent two bureau directors of the Foreign Ministry and Education Ministry to China to negotiate further with their Chinese counterparts.

After the return of the two directors to Tokyo on August 13, the Japanese Government started consultations on this question among the top leaders, and reached an agreement on the government's unified view, which was announced on August 26 by Chief Cabinet Secretary Kiichi Miyazawa.

China kept silent for two days after the Japanese Government's unified view was announced. Then it again issued a statement that it could not be satisfied with the view, and the *People's Daily* of August 30 also carried a report entitled "The Japanese Government should correct its mistake."⁵⁰ Troubled by this Chinese response, the Japanese Government amplified its position to China by presenting supplementary documents explaining how the correction of revised textbooks would be done in detail. But the resolution of the issue as a diplomatic dispute had to wait until September 8 when Wu Xueqian, vice-minister of China's Foreign Ministry, finally accepted the Japanese explanation.

⁴⁹ *People's Daily*, August 6, 1982.

⁵⁰ *People's Daily*, August 30, 1982.

The textbook dispute and contracts cancellation raised several questions: why did China open a strong campaign against Japan on the issue of Japanese school textbooks, which did not raise other vital issues such as trade and security; why did China decide to make a fuss around the time of the 10th anniversary of Sino-Japanese normalization in 1982, when Prime Minister Suzuki's visit was scheduled for late September, even though Japan's Education Ministry's textbook screening is done every year; why did China start her strong campaign of criticism after a 19-day silence, and why did she decide to accept the Japanese Government's explanation in early September, when Prime Minister Suzuki's visit to China was approaching? Was there any linkage between the textbook dispute and the contract problems?

It was related to China's changing view of the world order, as well as to the struggle within the Chinese leadership on the policies of economic development and political reform. There was strong reason to believe that, initially, the textbook crisis had been played up for political reasons. It was even possible that the matter had been brought up by the Deng faction to defend itself against charges by domestic opponents that it was overly 'pro-Japanese' and might have gone too far in the direction of military co-operation with Japan and the United States.

While the decisions of late 1978 had an enormous impact on China during the following years, significant problems arose with some of the key elements of the package adopted by the Central Work Conference of the CCP in 1978. The Four Modernizations program involved efforts in so

many areas that the central authorities feared a loss of control. The economy began to overheat and produced the first serious inflation since the establishment of the PRC. A new milestone was reached at the 5th Plenary of the 11th CCP Central Committee, held at Beijing in February 1980. The meeting focused on the reforming party leadership to facilitate modernization and substantially changing central leadership institutions in order to ensure longer term continuity and implementation of a practical modernization policies.

At the turn of 1980-1981, however, developments started working against the reformers. Signs of apparent growing political dissidence -- such as direct challenges to the leadership of the CCP, the outbreak of disturbances in several cities, anti-party politicking, bombings, strikes, and school boycotts -- combined with major economic dislocations, requiring new decisions to scale down Chinese economic reform and to reassert administrative control over the economic readjustment began to emerge in early 1979. Together, these developments raised additional problems for reform-minded officials led by Deng Xiaoping, and reduced for a brief time China's economic incentive for closer involvement with the West.⁵¹

When combined with Beijing's more sanguine view of the Asian balance, strong opposition to Reagan administration's pronouncements on Taiwan, and America's keen interest in exploring options with a Soviet leadership in the midst of political succession crisis, these domestic

⁵¹ Robert G. Sutter, *Chinese Foreign Policy -- Developments after Mao*, Praeger Publisher, New York, 1986, pp. 134-135.

difficulties acted to undermine support for the strong pro-US, anti-USSR posture preferred by Deng. At least Deng wished to avoid a serious confrontation over foreign policy issues at a time when he already faced problems on economic and other political issues.

The economic problems stemmed in many respects from the increased use of innovative economic reforms throughout 1979 and 1980. First, import demand generated by the original ten-year plan grew, pushing the foreign trade deficit to slightly more than \$1 billion in 1979 and to almost \$2 billion in 1980. Second, many youths previously sent to the countryside during the Cultural Revolution rejoined their families in the cities, pushing the number of urban unemployed to more than 20 million. Third, a budget deficit of over \$10 billion in 1979 led to a substantial increase in the money supply and serious inflationary pressure.⁵²

In the late 1970s, as Vice Premier Deng Xiaoping and the supporters of technocratic reform strengthened their position among the Chinese leadership, their attack on party Chairman and Premier Hua Guofeng focused on the internal and the patriarchal bureaucratic mentality of the government. By early 1980 the failure of Hua's attempts to rectify the economy was very apparent, and the depleted foreign currency reserve and the expanding economic crisis undoubtedly contributed to Hua's demotion later that year. In early February a Central Work Conference was convened and a new set of policies was

⁵²U.Alexis Johnson, ed., *China Policy for the Next Decade*, Boston, Oelgeschlager, Gunn, and Hain, 1984.

worked out. As a result of this conference, the State Council was reconstructed under Deng's intention. Premier Hua Guofeng was replaced by Zhao Ziyang, the governor of Sichuan province. The program allowed Deng and his associates to put many of their people in place in the government ministries. The way was now opened for the ascendancy of Deng Xiaoping and the supporters of economic reform.⁵³

By late 1980, Chinese leaders acknowledged that the new economic policies - while successful in many ways - had led to such negative consequences as budget deficits, inflation, foreign trade deficits, declining growth rates, persisting large pockets of poverty in rural areas, and more urban unemployment. It was also said that the goal of putting the economy back on the track of self-sustained growth in three years would require an additional two years. These developments, domestic and international, coalesced in December 1980, when the Chinese leadership convened another Central Work Conference to make far-reaching decisions on both domestic and foreign policy. Specifically, the December 1980 meeting cut the central budget by 20 percent to help curb inflation. It also halted many of the economic reforms then underway. Politically, this conference decided to give the Party a stronger role than it had had prior to the late 1978 decision that gave absolute priority to rapid economic development. This same meeting adopted measures to curb the spread of foreign ideas and foreign influence and decided to cancel or reduce some major projects that involved substantial foreign participation.

⁵³Robert G. Sutter, *Chinese Foreign Policy -- Development after Mao*, Praeger Publishers, New York, p.137.

During 1981 it was learned that there was an absolute decline in some critically needed commodities, notably energy. The planned budget deficit for 1980 was exceeded by 50 percent, leading to further overdrafts from the central bank, an increase in the currency in circulation, and persistent inflation. During 1981, China's domestic economy began to get back on track and under control. By the end of the year, Deng's central concern was with managing a succession to younger leadership committed at least in broad outline to his program. At the sixth plenary session of the 11th Central Committee, which was held in Beijing on 27-29 June, 1981, Hua Guofeng was removed from his position as the party chairman. Another major victory for Deng was that he replaced Hua as chairman of the CCP' Military Affairs Commission, the most important position in the Chinese political structure.⁵⁴

On the economic front, meanwhile, the government moved to deal with persistent problems by means of stern countermeasures announced in 1981 to reduce the projected budget revenues and expenditures by 9 and 13 percent and to provide a balanced budget. A large cutback in spending was to be achieved by a 45 percent reduction in the planned capital construction target for 1981. This resulted in a sharp reduction in plans to purchase foreign industrial equipment.

As the Chinese leaders conferred repeatedly on these difficult political and economic problems -- that had a major bearing on their own

⁵⁴ *People's Daily*, June 29, 1981.

political standing and future leadership roles -- they also appear to have discussed important foreign policy issues. The tactics in relations with the United States and the Soviet Union, and foreign policy in general, were under review. As in the leadership discussions that accompanied the changes in Chinese foreign policy approaches in the spring of 1979, at least some in the Beijing leadership appeared to want to pull back from the hard line against the USSR, and from close ties with the United States, that were favored by Deng Xiaoping.⁵⁵ There were strong linkages between changes in Chinese domestic-foreign "policy packages" favored by competing leadership groups in China.⁵⁶ In other words, Deng's domestic economic and political reforms and his pro-Western, anti-Soviet posture were mutually reinforcing parts of one policy package that was opposed by more conservative leaders who favored different approaches in both domestic and foreign affairs. In contrast, China's development strategy, drafted by Deng, made it very difficult for Beijing to turn away from the West in favor of reliance on a development model of autarky or on interchange with the socialist community and the third world.

And, ominously, the American presidential election of 1980 produced a new incumbent who favored establishing official relations with Taiwan and who had previously declared that normalization of relations with Beijing was a bad deal for the United States. Altered

⁵⁵ See Kenneth Lieberthal, "Domestic Politics and Foreign Policy," in Harry Harding, ed., *China's Foreign Relations in the 1980s*. Yale University Press, 1984.

⁵⁶ Ibid.

international and domestic circumstances complicated Deng's preferred anti-Soviet, pro-Western orientation. This shift came against a backdrop of growing Chinese concern with the international balance of forces that had developed in the wake of the Soviet invasion of Afghanistan. For the first time in almost a decade, Beijing saw an international balance evolving that was likely at least temporarily to hold the threat of Soviet expansion at bay. Moscow's ability to use military power to extend its influence was also seen as sapped by growing economic, political, and military problems the Soviet leaders faced both at home and abroad.

China adjusted its foreign approach tactically to accord better with these altered circumstances. It moved to an international posture more independent of the United States, closer to the developing countries of the third world and less hostile to the USSR. In many respects, China's new tactics represented a logical continuance to the policy initiatives undertaken in 1979 but put aside in favor of a stronger anti-Soviet, pro-Western approach in the immediate aftermath of the Soviet invasion of Afghanistan.⁵⁷

With regard to its changing view of world order, China decided to adopt a more flexible "independent foreign policy"⁵⁸ toward both the United States and the Soviet Union. It should be remembered that Hu Yaobang, chairman of the Chinese Communist Party, hinted in his

⁵⁷ Robert G. Sutter, *Chinese Foreign Policy -- Development after Mao*, Praeger Publishers, New York, pp.167-168.

⁵⁸ Youli Mu, "More on China's Independent Diplomacy," *Beijing Review*, January 30, 1984.

speech at the 12th Party Congress in September 1982 that China was ready to improve her relations with the Soviet Union if the latter took concrete action to reduce the threats to China.⁵⁹

Soviet initiatives to improve relations with China date from the early 1980s. In 1982, in speeches delivered in Tashkent and Baku, Brezhnev appealed for the normalization of Sino-Soviet relations. Beijing responded positively and although subsequent talks continued to make cautious progress through the Chernenko and Andropov period.

Meanwhile, Beijing faced the prospect of a period of prolonged decline in Sino-American relations. The major benchmarks in China's more independent and critical approach to the United States came in quick succession. Speaking at a 1 July 1981 rally celebrating the 60th anniversary of the Chinese Communist Party, Hu Yaobang provided the highest-level public evidence that Beijing was likely to react strongly to US actions judged to be inimical to its interests regarding Taiwan.⁶⁰ Beijing's particular concerns about US policy toward Taiwan were spelled out by *People's Daily* on July 4, when it published excerpts from a journal article entitled "On the Taiwan Relations Act."⁶¹ The article provided the most detailed examination of the Taiwan Relations Act yet

⁵⁹ *People's Daily*, September 11, 1982.

⁶⁰ *People's Daily*, July 1, 1981.

⁶¹ The Act passed by the US Congress and became effective on January 1, 1979 to propose a "legal arrangement" in the United States' relations with Taiwan after Washington ceased diplomatic recognition of the government.

published in the party paper. The article, for the first time since normalization between China and the United States, explicitly raised in public a hypothetical scenario in which China eventually might choose to use force against Taiwan. Concurrently, in late 1981, Beijing began tagging the United States with the hegemonist label reserved for the Soviet Union alone since 1979.⁶²

The inauguration of the new Japanese government headed by Prime Minister Yasuhiro Nakasone in November, 1982, aroused some uneasiness on the part of the Chinese leaders, because Nakasone's hawkish views on foreign and defense policies were generally well known. After Nakasone's visits to Seoul and Washington in January, 1983, China indicated its displeasure with Nakasone's foreign policy, charging in part that his visits were designed to strengthen the military alliance among Japan, South Korea and the United States.⁶³

While the underpinning of China's foreign policy as it evolved in 1981-1983 remained the search for a stable environment in Asia, Beijing tried to achieve such stability with a foreign posture truly independent of the United States and the West, and substantially less hostile to the USSR. But it would, at some point, have to halt and reverse its pullback from the United States, because this link with the West was so important for maintaining China's security and development interests in the face of

⁶² Samuel S. Kim, "China and the World," in his edited volume *Chinese Foreign Policy in the Post Mao Era*, Westview Press, Boulder, 1984, pp. 218-221.

⁶³ Richard K. Nanto & Hong K. Kim, "The Developments of Sino-Japanese Relations," *Current History*, September 1986, pp.254.

persistent Soviet pressure in Asia. In early 1983 China began retreating from some of the tactical adjustments seen in the previous two years notable seeking to patch up Chinese relations with the Reagan administration.

The strategic and economic imperatives governing China's renewed interest in better ties with the United States, and the rising Chinese antipathy toward the USSR were mirrored in China's relations with Japan. Sino-Japanese relations had made great progress since formal diplomatic relations were established in 1972, but in 1982 had run up against a serious political controversy over revision of Japanese textbooks dealing with the history of imperial Japan's war against China in the 1930s and 1940s. Beijing also registered concern in 1983 about the reported shift in US strategic emphasis in Asia, away from China and in favor of more reliance on Japan, now under the leadership of the more "hawkish" Prime Minister Nakasone, warning anew against the possible revival of Japanese "militarism." By mid-1983, however, Beijing had decided concurrent with its decision to improve relations with the Reagan administration -- to solidify ties with Japan.

Japanese gains during this period, however, should not be underestimated. The Japan-China Economic Association estimates that China concluded \$11.7 billion in contracts for "whole plants and technology from 1978 to 1984, of which Japan own 52.4 percent for more than \$6 billion.⁶⁴ In contrast, West Europe's share was 38.2

⁶⁴Rysei Kokubun, "The Politics of Foreign Economic Policy -making in China: The Case of Plant Cancellations with Japan." *The China Quarterly*, December 1986,p.34.

percent and that of the United States only 7.1 percent. Of the ninety-seven contracts signed for whole plants, fifty-four were completed or nearly so by 1983, with Japan taking a leading role among all foreign countries in steel, petrochemicals, chemical fertilizers, and synthetic textiles. Sino-Japanese trade meanwhile recovered almost to its pre-1982 level, just exceeding the \$10 billion total in 1983, and remained in rough balance. Both sides were reassured that there would continue to be growth in trade.

II. Calm Years (1983-1986)

In a move to improve Tokyo-Beijing relations, Prime Minister Nakasone dispatched his party's secretary general, Susumu Nakaido, as a special envoy to Beijing in February, 1983. In his talks with Chinese leaders, Nakaido stressed the fact that the Nakasone government's defense policy was no different from its predecessors and that his government was as friendly toward China as earlier administrations had been. Chinese leaders advised Nakaido, however, that Japan should exercise "moderation" lest its military buildup arouse uneasiness among Asian countries.⁶⁵

By the spring of 1983, it had become increasingly clear that the Nakasone government would pursue a policy of close cooperation with China, for keeping China on the side of Western powers would serve the common interests of the West as a whole. Japan did not want to see the

⁶⁵Richard K. Nanto & Hong K. Kim, "The Developments of Sino-Japanese Relations," *Current History*, September 1986, p.253.

reemergence of a Sino-Soviet bloc that would threaten its security. Furthermore, Japan shared a common strategic interest with China in containing Soviet power and influence in East Asia. As long as Japan and China perceived the Soviet military buildup as the greatest threat to their security, Japanese leaders believed it prudent for Tokyo and Beijing to cooperate for common security interests.

In 1982, four years after the signing of the Treaty of Peace and Friendship, China and Japan, on Beijing's initiative, adopted a three-point declaration on bilateral relations, making a mutual commitment to ensure that new differences, whatever their nature, would not be allowed to threaten the peace. Accordingly, Sino-Japanese relations would be governed by the principles of peace and friendship, mutual benefit and equality, and long term stability.⁶⁶ The following year, during General Secretary Hu Yaobang's visit to Japan, the Japanese proposed adding a fourth principle -- mutual trust. These four principles formed the basis for promoting extensive people to people contacts. Even when one takes into account the differing social systems of China and Japan and the need for such contacts to be established through official channels, the efforts of both governments to promote friendship between their two peoples were considerable.

To ensure the development of friendly relations, the Nakasone government agreed to establish a "Sino-Japanese Friendship Committee for the 21st Century." Agreements to this effect were made between

⁶⁶Richard K. Nanto & Hong K. Kim, "The Developments of Sino-Japanese Relations," *Current History*, September 1986, p.253.

Prime Minister Nakasone and Hu Yaobang, General Secretary of the Chinese Communist Party (CCP), who visited Japan in November, 1983.

Hu Yaobang's visit in 1983 was heralded as the beginning of a new era of friendship between the Chinese and Japanese people. It was during this visit that the General Secretary, who was widely reported to have won the hearts of the Japanese people, proposed the establishment of the 21st Century Committee for China-Japan Friendship in order to study ways of expanding bilateral relations. Speaking at a youth rally in Tokyo, Hu also invited 3,000 Japanese young people to visit China: an invitation which was reportedly deemed imprudent by several of his colleagues in Beijing.⁶⁷

One of the many fruits of the congenial atmosphere in Sino-Japanese relations which followed Hu's visit was the agreement of March 1984 on the problems of resettling the so-called War Orphans -- a term used to refer to the thousands of Japanese offspring who were left behind in China at the end of World War II, their spouses and their children. The resettlement program had begun in 1972 but had run into bureaucratic and financial problems. They were resolved by a new exchange of notes under which Japan agreed to accept the war orphans, whether or not they were able to trace their relatives in Japan and to pay half the maintenance cost of the Chinese foster parents of those war orphans who now intended to settle permanently in Japan. By 1987

⁶⁷ *Asian Wall Street Journal*, May 2, 1987.

more than 2,000 war orphans from 500 families had been resettled in Japan.

For a few years after the textbook uproar, Sino-Japanese relations enjoyed a mood of "friendship and cooperation." The number of Japanese and Chinese traveling between the two countries each year jumped to 180,000, while two way trade increased to \$10 billion.⁶⁸

In a related move, the Japanese government began to draft a new economic aid package for China. The outline of the package was delivered by Prime Minister Nakasone during his four-day visit to China beginning on March 23, 1984. In his talk with Prime Minister Zhao Ziyang, Nakasone promised to provide China with a package totaling \$2.1 billion in official development loans to help finance seven key industrial projects proposed by China between 1984 and 1990. Nakasone also promised to offer additional credits of the Export-Import Bank of Japan to China for the development of petroleum and coal resources.

Deng Xiaoping told Nakasone that China was not expecting any breakthrough in Sino-Soviet negotiations, because Moscow had failed to make meaningful concessions on the three specific conditions laid down by China for the normalization of Sino-Soviet relations (i.e., Soviet withdrawal from Afghanistan, termination of Soviet support for Vietnam's occupation of Cambodia, and the reduction of Soviet troops along Sino-

⁶⁸ *The Japan Times*, March 23, 1984.

Soviet borders). As for Sino-Japanese economic cooperation, Deng expressed Beijing's wish for active Japanese participation in China's industrial development. When Nakasone responded that China should create an environment conducive to foreign investment in China, Deng indicated China's willingness to adopt the necessary measures to protect foreign investors.⁶⁹

The Chinese had long looked upon Japan -- their chief trading partner -- as a major source of assistance in promoting economic development in China. And the growth of Soviet military power in East Asia prompted the Chinese to consult with Japan on security issues more frequently and to pursue parallel foreign policies designed to check Soviet influence and promote regional stability. While the Japanese enthusiasm for exploiting the Chinese market had waxed and waned over the previous years, broad strategic considerations consistently influenced Tokyo's policy toward Beijing. In fact, Japan's willingness to involve itself heavily in China's economic modernization efforts reflected in part a determination to help keep China preoccupied with peaceful domestic development, to draw China into gradually expanding links with Japan and the West, to reduce China's interest in returning to its more provocative foreign policy objective of the past, and to obstruct any sort of Sino-Soviet realignment against Japan.⁷⁰

⁶⁹ *People's Daily*, March 25, 1983.

⁷⁰ Hong N. Kim, "Sino-Japanese Relations," *Current History*, April 1988, pp.153-155.

Thus, common strategic concerns, as well as economic interests, played an important role in bringing the two countries together. Both China and Japan adopted strikingly complementary foreign policies -- designed to isolate the USSR and its allies politically and to promote regional stability. In Southeast Asia, both countries provided strong diplomatic backing for ASEAN's efforts to bring about a Vietnamese withdrawal from Kampuchea. In Southwest Asia, China and Japan backed the condemnation of the Soviet occupation of Afghanistan, refused to recognize the Kabul regime, and sought through diplomatic and economic means to bolster Pakistan. In Northeast Asia, both states sought to exercise a moderating influence over their respective Korean partners to reduce tensions. Complementary economic interests also served to strengthen Sino-Japanese relations. Japan was a major source of capital, technology, and equipment for China's modernization drive.

After Nakasone's visit to Beijing, many Japanese felt the relationship between Japan and China was better than ever before. However, the euphoric mood was dashed by the summer of 1985, when Chinese students staged anti-Japanese demonstrations in Beijing, Xian, Chengdu and other urban centers in protest against Japan's "economic invasion" and against Prime Minister Nakasone's official visit to the shrine, which honors the memory of the more than 2.4 million Japanese war dead including General Hideki Tojo, a class A war criminal. This visit angered not only Chinese officials but also the students, who regarded it as a move designed to revive militarism in Japan.

Nakasone had visited Yasukuni many times before. But on August 15, 1985, the 40th anniversary of Japan's World War II surrender, Nakasone visited Yasukuni and, with television cameras rolling, and said that he was there in his official capacity as prime minister, not as a private citizen. It was part of a larger campaign by Nakasone to build a new national spirit and was a gesture fraught with symbolism and defiance of conventions that evolved after the war.⁷¹

On the campus of Beijing University, however, a cartoon poster appeared showing Nakasone wearing boots and sharpening a sword. On September 18, the anniversary of the beginning of Japan's invasion of Manchuria in 1931, nearly one thousand Chinese students from Beijing University and Qinghua University marched through Beijing's Tiananmen Square shouting "Down with Japanese militarism" and "Down with Nakasone." It was the first student demonstration against a foreign government since 1949 which was not organized by the Chinese government. A Beijing University student attending the rally told a press reporter: "We do not oppose China-Japan friendship; we do not oppose the Japanese people, we oppose a small group of militarists who want to resurrect Japanese domination." However, some marchers broadened the protest into an attack on the growing commercial relations between China and Japan, shouting "Down with the second occupation," a reference to Japan's increasing commercial presence in China and the growing trade imbalance in Japan's favor.⁷²

⁷¹ *Washington Post*, October 27, 1985.

⁷² *The New York Times*, September 19, 1985.

Similar student demonstrations were seen in other cities including Xian in Shanxi province, Wuhan in Hubei province and Chengdu in Sichuan province. It is now clear that the student demonstrations against Japan had two motives, mutually intertwined: the demonstrations were directed against Nakasone's visit to Yasukuni and also against what the students called a new invasion by Japanese consumer goods, namely, "economic invasion." And the Chinese authorities were facing the difficult task of trying to instill patriotism while not stirring up sentiment against the Japanese.⁷³

In an apparent move to placate the Chinese, Prime Minister Nakasone canceled a second scheduled visit to the Yasukuni Shrine during a festival from October 17 to 19, although this did not stop large numbers of ruling party leaders from praying at the shrine during the festival. Nakasone told the Diet that he would consider future visits to the shrine on a case-by-case basis. This seemed a step back from his earlier position that official visits would become routine, and the move was condemned by some hard-line members of the LDP, who saw it as crumbling under Chinese pressure. "We have to think carefully and do what is right," said Okuno, "we should not constantly be thinking of the views of other countries."⁷⁴

⁷³ Richard K. Nanto & Hong K. Kim, "The Developments of Sino-Japanese Relations," *Current History*, September 1986, p.255.

⁷⁴ *Washington Post*, October 27, 1985.

China's official position on the Yasukuni problem was summarized by Hu Yaobang's four-point statement that past conflict and history should be correctly evaluated and that the people of China should distinguish between Japanese war criminals and the Japanese people in general.⁷⁵ Hu made the statement during a meeting of Japanese and Chinese members of the bilateral friendship committee for the 21st century, held in Beijing on October 18. At the Sino-Japanese foreign minister's conference in Beijing in October, 1985, Chinese leaders urged the visiting Japanese to understand "the sentiments of the Chinese people" and not to aggravate the situation.⁷⁶ In response, in October 1985 Nakasone reassured Chinese Premier Zhao at the United Nations that Japan would strengthen Sino-Japanese ties on the basis of the Sino-Japanese peace treaty and other bilateral agreements. Furthermore, Nakasone told a group of 503 visiting Chinese youths in early November that he accepted the four-point statement made by Hu and understood China's critical position on his official visit to Yasukuni Shrine.⁷⁷ In this regard, it can be said that Nakasone was very quick to "bow and yield" to China.

For many Chinese, to be sure, Nakasone's visit to the Yasukuni Shrine was a big insult and seriously hurt their feelings. It also brought forth recollections of the "textbook controversy." It should be noted, however, that the student demonstrations this time were distinct from

⁷⁵ *People's Daily*, October 19, 1985.

⁷⁶ *People's Daily*, October 11, 1985.

⁷⁷ *The Japan Times*, November 10, 1985.

the anti-Japanese campaign officially made by the Chinese Government. On the other hand, the Chinese mainstream leaders at least, did not want to kick up another big diplomatic row by letting the issue get out of control. Some speculation reveals that the anti-Japanese demonstrations by students were intended to check the excessive pace of the reform movement and the "open-door" policy of the Deng and Hu leadership. If this is the case, it was natural that the authorities did not want the demonstrations to disturb and damage the reformers' position by creating disorder in society. By contrast, the Japanese Government was extremely concerned about the possible resurgence of another serious diplomatic dispute between Japan and China.

III. Stormy Years (1986-1989)

In 1985 Japanese exports to China increased suddenly due to a sharp rise in Chinese consumer orders. A large increase in China's purchases of cars and color television sets was the main factor behind a 73 percent rise in the overall value in 1985; the total amount was over \$12.4 billion. It triggered a series of conflicts between China and Japan in the following years. Sino-Japanese relations experienced a stormy period.

Three factors accounted for the sudden increase in 1985. First, the overheated economy raised the demand for producer goods as capital construction and private investment expanded in 1984-1985.⁷⁸ As a result, Japanese shipments of steel products, constituting 25.6 percent

⁷⁸This portion is based on "Japan and China Trade in 1985," *China News Letter*, no.61, (March-April 1986), pp.17-24.

of total export to China, rose six fold for pig iron and doubled for steel bars. Second, Chinese consumer orders skyrocketed as a result of increased purchasing power from increasing income. This triggered inflation and prompted Beijing to approve massive imports of consumer goods. Japanese television orders rose fivefold in 1984 and tripled in 1985, with only somewhat lesser increases in orders for refrigerators, washing machines, and other electrical appliances. Electrical equipment (including consumer goods) and industrial machinery together accounted for 36.2 percent of Japanese exports to China in 1985. Third, two of Deng's major economic reforms included granting local enterprises and governments greater import authority and decentralized foreign exchange control. These two reforms led to widespread profiteering as scarce luxury goods were imported and resold. As a result, Japanese automobile shipments -- mainly for officials and taxis -- quadrupled in 1984 and tripled in 1985. In 1985, transportation equipment constituted 17.6 percent of overall Japanese exports to China.⁷⁹

This problem warranted attention both for the way it reflects some recurring problems in Chinese economic planning and for the way it impacted on Japanese perceptions of the China market. These developments caused China's foreign exchange reserves to plummet from \$17 billion in July 1984 to \$10 billion in March 1986.

Several factors contributed to the persisting trade imbalance. First, China's pattern of exporting raw materials to Japan in exchange for

⁷⁹Laura Newby, *Sino-Japanese Relations -- Chinese Perspective*, Royal Institute of International Affairs, New York, 1988, p.13.

imports of manufactured goods generated a trade imbalance for China. For example, in 1986, crude oil, coal and mineral products accounted for 32.5 percent of Chinese exports to Japan. Meat, fish, vegetables, fruits and other agricultural products constituted 32.2 percent of total Chinese exports, and textile materials and garments accounted for 34.7 percent of total Chinese exports to Japan. On the opposite side of the ledger, of the \$9.9 billion in Chinese imports from Japan in 1986, the largest category (50.5 percent) consisted of industrial machinery and electrical equipment (\$4.98 billion), including 9.6 million tons of steel. Other major imports from Japan included chemical products (8.3 percent) and textile products (4.5 percent).

Second, to exacerbate the situation, there was a sharp decline in the crude oil price from \$26 per barrel in 1985 to about \$13 per barrel in 1986. As a result, Chinese earnings on oil exports to Japan dropped by nearly 46 percent, from \$2.2 billion in 1985 to \$1.2 billion in 1986, although China exported slightly more oil in 1986 than in 1985. Declines in the price of other raw materials (e.g. cotton) also adversely affected China's earning through export in 1986.

Third, the appreciation of the yen vis-à-vis the dollar also had an unfavorable impact on Sino-Japanese trade, because the purchase of Japanese products became more expensive. In order to rectify the situation, China demanded that Japan encourage more Chinese imports by lowering trade barriers like quotas, tariffs and other restrictive regulations. Chinese leaders also repeatedly expressed their desire for more Japanese participation in joint ventures with the Chinese, to

facilitate technological transfer and industrial development. The crisis worsened as oil, which constituted nearly 34 percent of China's 1985 exports to Japan, dropped sharply in price while the yen steadily rose in value.

Since Chinese exports to Japan amounted to about \$6.5 billion in 1985, China incurred a trade deficit of \$5.9 billion. Disturbed by the trade deficit, Deng Xiaoping told a delegation of Japanese business executives in December, 1985, that China might tolerate such a deficit "for one year, or even two," but definitely not for longer.

To reduce the trade deficit, China imposed severe import controls in 1986 by limiting import channels and foreign exchange access, banning the import of finished products in transportation and consumer goods (the importation of Japanese cars and television sets decreased by 92 percent and 86 percent), and promoting domestic production for import substitution. As a result, Japan 's exports to China fell by 21 percent to \$9.9 billion in 1986, while its importation of Chinese products decreased by 12.4 percent to \$5.6 billion. Reflecting these changes in 1986, two way trade between China and Japan totaled around \$15.5 billion. China's trade deficit with Japan stood at \$4.2 billion.

The impact of these actions was immediate and, for some Japanese firms, drastic. The Japan International Trade Promotion Association polled its members in early 1986 and found nearly one hundred unimplemented contracts amounting to sixteen billion yen. The estimates of threatened orders ranged from fifty to one hundred billion

yen, with some small firms driven to bankruptcy in the absence of alternative market for products designed to meet Chinese specifications. As a result, 1986 shipments to China of machinery and equipment fell 30.2 percent, electrical appliances dropped 39.7 percent, and transport equipment, including automobiles and ships, plunged 58 percent.⁸⁰ In short, Sino-Japanese trade once again experienced the seesaw phenomenon.

In May, 1986, a 162-member Japanese delegation visited China to look for products that Japanese companies might be able to import. The delegation discussed various measures to increase China's exports. To help China's efforts to expand exports, Japanese firms assisted the Chinese with product design, quality control, and modern inventory and delivery systems. To alleviate Chinese complaints about Japan's restrictive trade barriers, Japan also took steps to reduce tariffs and quotas and to liberalize its customs inspection procedures for Chinese agricultural and fishery products.

Chinese officials repeatedly threatened to cut future imports if Tokyo did not lift its trade restrictions and open its market to Chinese goods. Addressing more than one hundred Japanese business leaders, Zhu Rongji, vice minister of the State Economic Commission, warned that "economic relations between the two countries will not grow unless the Chinese trade deficit with Japan declines." Zhu further suggested

⁸⁰ "Japan-China Trade in 1986," *China Newsletter*, no.67, (March-April 1987) p.20.

the possibility that trade might actually decrease.⁸¹ Beijing had already switched suppliers in some items, the United States replaced Japan in office equipment with 53 percent of Chinese imports in 1986 compared with 32 percent in 1985.⁸²

In the summer of 1986, Sino-Japanese relations were further strained by a controversy over a new Japanese high school textbook edited by a right-wing group. Beijing publicly criticized the book, which hurt "the sentiments of Chinese people" by "beautifying the wars of aggression" waged by Japan in the pre-1945 period.⁸³ Eventually, some 800 revisions were made in the textbook to comply with government guidelines. Despite the changes, Chinese resentment persisted because Japanese Education Minister Masayuki Fujio made controversial remarks in defense of the atrocities committed by Japan against the Chinese in the Sino-Japanese war (1937-1945). Although Nakasone dismissed Fujio from his Cabinet in September, 1986, a bitter aftertaste lingered.

Against the backdrop of strained Sino-Japanese relations, Prime Minister Nakasone visited Beijing on November 8-9, 1986, to attend the ceremony for laying the corner stone for the Sino-Japanese Youth Exchange Center, which was to be built with funds provided by Japan.

⁸¹ *Kyodo in English*, February 27, 1987.

⁸² "China's Sweeter," *The Economist*, October 15, 1986.

⁸³ Bruce Roscoe, "Grappling with History." *Far Easter Economic Review*. June 26, 1986. pp.12-13.

In his talks with Chinese leaders, Nakasone reaffirmed his government's adherence to the Sino-Japanese joint communiqué of 1972, the Treaty of Peace and Friendship of 1978 and the four basic principles agreed to in 1983, pledging to develop stable bilateral relations on a long-term basis. Nakasone also promised to study ways to rectify the trade imbalance between Japan and China.

Returning from China, Nakasone instructed Japanese officials to study measures to increase the importation of Chinese products. However, such a friendly gesture toward China did not bring about any noticeable improvement in Sino-Japanese relations. Rather, Tokyo-Beijing relations were to experience new strains as other controversial issues surfaced in the spring of 1987.

Toward the end of December, 1986, the Nakasone government decided to increase its defense budget by 5.2 percent, allocating \$22 billion for defense expenditures for fiscal year 1987. The new defense budget, representing 1.004 percent of Japan's gross national product, surpassed the 1 percent ceiling on defense that had been regarded as an important principle of Japanese defense policy since its adoption in 1976. Reactions to the new defense budget from major Japanese opposition parties were generally unfavorable. Despite assurances from the Japanese that the increase was in line with the 1976 National Defense Program Outline and did not presage a military revival, the Chinese expressed their concern at the announcement.⁸⁴

⁸⁴Samue S. Kim ed., *China and the World, New Directions in Chinese Foreign Policy*, Westview Press, Boulder, 1989, pp.190-191.

On January 2, 1987, a spokesman for Beijing said that "there has to be a limit to the growth of Japanese defense forces, which should not exceed Japan's defense needs and make its neighbors feel uneasy."⁸⁵ On January 13, 1987, Chinese concern was voiced again by its leader Deng Xiaoping in a meeting with the members of the Liberal Democracy Party. When Takeshita Noboru, the Secretary-General of the ruling LDP, visited Beijing ten days after the new budget was announced in January 1987, Deng Xiaoping took the opportunity to express his misgivings.⁸⁶ Deng decided that the abandonment of the defense spending ceiling was "troublesome" to the Chinese people, and that China "hopes the Japanese government will exercise caution over the matter."⁸⁷ Takeshita's response was that Japan will maintain its purely defensive security policy and will never pose a threat to neighboring countries.

Nevertheless, criticism emanating from Beijing was comparatively restrained. Indeed, China's ambiguous attitude towards Japan's defense policy was a constant irritant to the Japanese leaders, who realize that this issue afforded China an important opportunity to exploit political divisions within Japan.

⁸⁵ Hua Xin, "Defense Budget Stirs Controversy." *Beijing Review*, January 19, 1987, p.12.

⁸⁶ *People's Daily*, January 12, 1987.

⁸⁷ *Japan Times*, January 14, 1987.

When Japan's defense chief, Kurihera Yuko, visited Beijing in May 1987, for example, his counterpart, Zhang Aiping made no reference to the Japanese defense budget.⁸⁸ A few days later, when Deng Xiaoping met Yano Unya, chairman of the Komeito party, (Japan's second largest opposition party), China's most senior statesman vented bitter criticism of the defense budget.⁸⁹ Chinese media reported that Japan's defense plan had surpassed its defense needs. This caused anxiety among all Asian countries which had been victims of Japanese invasion in the past.⁹⁰ The Chinese were doubtless genuinely concerned lest a military build up in Japan should be accompanied by a surreptitious rise in militaristic sentiment, or even a blatant move to abolish the military limitations imposed by Article 9 of the Japanese Constitution. Yet, as Beijing was fully aware, it was the political dynamics of the region and not the upgrading of Japan's conventional armed forces that posed the real threat to China's security and regional peace.

Another more serious strain in Sino-Japanese relations occurred in the spring of 1987 when the Osaka High Court ruled in favor of the "Republic of China" (Taiwan) in a case involving the ownership of a student dormitory. On February 26, 1987 the Osaka High Court recognized Taiwan's ownership of a student dormitory in Kyoto called the Guanghai Hostel, or Kokaryo in Japanese, a Chinese student dormitory located in Kyoto and claimed by both Beijing and Taipei. In supporting a

⁸⁸ *People's Daily*, May 29, 1987.

⁸⁹ *People's Daily*, June 5, 1987.

⁹⁰ *Beijing Review*, January 18, 1988.

lower court's reversed ruling, it said that the Kokaryo building was not a diplomatic asset and therefore did not belong to China, despite Japan's 1972 switch of diplomatic recognition from Taiwan to China. To be specific, the Kokaryo itself was an old and small building, which Kyoto University rented to students from China during the wartime period and which was bought by Taiwan in 1952. It was also known as a dormitory occupied by Maoist students supporting the Beijing Government during the Cultural Revolution period.⁹¹

Taiwan had sued since 1967, in an attempt to evict these pro-Beijing students from the dormitory, but the first trial of Kyoto Lower Court in 1977 rejected Taiwan's demand, saying that ownership of the dormitory should be transferred from Taiwan to the People's Republic of China in the wake of the 1972 Sino-Japanese diplomatic normalization and Japan's recognition of the People's Republic of China as the sole legal government of China. However, the Kyoto Lower Court's first ruling went against the conventional view of international law that "non diplomatic" assets should belong to the previous government even though the ownership of "diplomatic" assets are transferred to the new government in the case of a switch of diplomatic recognition from one government to another. As was expected from the viewpoint of international law, the Osaka High Court decided in 1982 to return the case to the Kyoto Lower Court, which in 1986 reversed its judgment, supporting Taiwan's ownership of the dormitory.

⁹¹ Hidenori Ijiri, "Sino-Japanese Controversy since the 1972 Diplomatic Normalization, *The China Quarterly*, December 1990, p.653.

The Osaka High Court ruling on February 27, 1987 was therefore, to approve the Kyoto Lower Court's decision. The case was publicized when China started to make strong protests against the ruling, which, in China's terms, was described as Japan's serious "mistake" to create "two Chinas" by violating the spirit of the 1972 Sino-Japanese Joint Communiqué, and the 1978 Sino-Japanese Peace and Friendship Treaty. Under these circumstances, Deng Xiaoping criticized mounting "militarism" in Japan and warned at a meeting with a group of visitors from Hong Kong in April, that: "Taiwan's status is not stable.... If it is not returned to and reunited with the motherland, someday it might be taken away by others."⁹² He further went on to say that Japan is a "chauvinist country," and warned of growing Japanese militarism" in the region.

The Japanese explained to the Chinese that Japan operates under a division of powers between the legislative, executive and judicial branches of government, and that decisions made by the courts cannot be changed by the Cabinet. Deng Xiaoping was well aware of Japan's democratic process, but he pressed the matter from the viewpoint that the case was not a legal question within Japan, but a political problem between Japan and China. In response to Deng's criticisms, Prime Minister Nakasone said that Japan was sticking to its "one China" policy and that friendship between Japan and China would remain unchanged.⁹³

⁹² *The Japan Times*, April 18, 1987.

⁹³ *The Japan Times*, June 6, 1987.

Beijing's displeasure with the Nakasone government's stance on the Kokaryo case was voiced by Deng Xiaoping at a meeting with Junya Yano, chairman of the Komeito (Clean Government Party), who visited China in early June. Deng told Yano that the Japanese government should take proper action to rectify the "erroneous court ruling" in the Kokaryo case. Deng also criticized Japan's decision to boost the defense budget beyond the ceiling of 1 percent of its GNP and complained about the inadequate level of Japanese investment in China.

In his response, Japanese Foreign Minister Tadashi Kuranari reiterated Tokyo's position that it "cannot interfere in the judicial process because of the constitutional provisions of separation of powers." Kuranari reassured the Chinese that Japan would abide by the provisions of various Sino-Japanese agreements made since 1972 and that there was no need to worry about Japan's defense policy.

The relatively frank remark made by the Foreign Ministry official worsened the situation and provoked a furious Chinese reaction. One Chinese Government spokesman said on June 10 that the Japanese official "has openly launched a malicious attack against Chairman Deng Xiaoping that would have adverse effect not only on the feelings of the Chinese people but also on bilateral relations."⁹⁴ Beijing lodged a protest with Japan for the "malicious attack against Chairman Deng Xiaoping."⁹⁵

⁹⁴ *People's Daily*, June 11, 1987.

⁹⁵ *People's Daily*, June 8, 1987.

In an attempt to mollify the Chinese, Prime Minister Nakasone instructed Vice Foreign Minister Kensuke Yanagiya, who had triggered the controversy, to issue a statement of apology to China, and Yanagiya apologized.⁹⁶ Kimio Fujita, director of the Foreign Ministry's Asian Bureau, and Masaharu Gotoda, chief cabinet secretary, were also quick to express regret over the case. Prime Minister Nakasone even forced the early retirement of Vice-minister Yanagiya.

As was expected, moreover, the Kokaryo case and the related disputes between Japan and China dominated discussion at a Sino-Japanese ministerial meeting. At the fifth Sino-Japanese Ministerial Conference, held in Beijing on June 26-28, 1987. Deng Xiaoping reiterated Beijing's displeasure with Tokyo's handling of the Kokaryo case, asking Tokyo to resolve the thorny issue promptly. He also complained to visiting Japanese Cabinet members that Japan was not doing enough in the area of economic cooperation. . Deng Xiaoping told the Japanese envoy that the problems in the relationship were entirely Japan's fault. "Frankly speaking, the responsibility was never China's," Deng said, "Not one of the past and present troubles was caused by China." "I heard that there was a remark that I was living in the clouds," Deng said, "I think this means that I am too old - I would describe that as meaning old and muddle headed."⁹⁷

⁹⁶ *Japan Times* June 16, 1987.

⁹⁷ *The Japan Times* June 29, 1987.

The Kokaryo case was not the only issue discussed at the conference. In his talks with the Japanese Ministers, Chinese Premier Zhao expressed his government's displeasure with the trend of increasing Japanese investment in Taiwan while maintaining an unsatisfactory level of Japanese investment in China. Zhao also expressed his concern about the perennial trade imbalance between China and Japan, which totaled over \$21.5 billion from 1972 to 1986, and he urged Japan to rectify the situation by adopting necessary measures like lowering its tariffs and eliminating unreasonable restrictions.

In an attempt to improve Sino-Japanese relations, Prime Minister Nakasone offered additional economic aid to China. On September 28, 1987, at a reception held in Tokyo in commemoration of the fifteenth anniversary of the normalization of Sino-Japanese diplomatic relations, Nakasone announced his government's decision to provide a special 100 billion yen "soft" loan to help China's economic development. The offer was contained in a congratulatory message he exchanged with Premier Zhao through the Chinese ambassador at the reception.

Despite Beijing's professed wish for an early settlement of the Kokaryo dispute, it became increasingly clear that it would not be settled by Prime Minister Nakasone, whose term was to expire in November, 1987. Shortly after he resigned his post, Nakasone declared that Japan had no intention of pursuing a "two Chinas" policy. Japan's national policy recognizes only one China and considers Taiwan as a part of China.⁹⁸ Noboru Takeshita succeeded Nakasone as Prime Minister of

⁹⁸ *Japan Times*, June 14, 1987.

Japan. Chinese Premier Zhao congratulated Takeshita on his new post and expressed his appreciation for the new Prime Minister's willingness to contribute to the development of Sino-Japanese friendship. At the same time, Zhao expressed his hope that Prime Minister Takeshita would settle the Kokaryo case at an early date. It was reported that Prime Minister Takeshita had accepted Zhao's invitation to visit Beijing and would visit China in August, 1988, to commemorate the tenth anniversary of the signing of the Sino-Japanese peace treaty of 1978.⁹⁹

To get a better understanding of the causes of the strains in Sino-Japanese relations during this period, we have to look at them from a larger perspective: the international environment and domestic situation of China. The Sino-Soviet alliance of the 1950s was in part built on an anti-Japanese basis and China was never entirely happy with signs of a rearmed Japan. Although the Sino-Soviet split and closer Sino-American relations led China to be less critical of Japanese defense spending and American pressure on Japan for greater sharing of the defense burdens, by the mid-1980s China was again changing its mind.

After 1980, the US 7th Fleet and the Japanese Maritime Self-Defense Force increased their presence throughout the region. Japan agreed to strengthen its conventional arms, to increase logistical support of US forces in East Asia, and to establish its conventional military strength in the air and seas around Japan. Exchanges of intelligence and military personnel were well established, and in 1986 Japanese and

⁹⁹ *People's Daily*, November 20, 1987.

US military experts completed a three-year joint study on how their respective forces could defend the sea within 1,000 nautical miles of the Japanese coast.

The expanding scope of US- Japanese joint military cooperation did not appear to have caused the Chinese any serious disquiet. The reason for this was clear. The Chinese were concerned that the weakening of the American economy due to over dependence on the Japanese would be followed by political weakening in the US-Japan alliance. As the US trade deficit with Japan steadily increased, reaching a staggering \$52 billion in 1987, the Chinese anxiously monitored the growing tension between the two countries. Beijing's fears that the withdrawal of the US defense umbrella would inevitably lead to the full-scale rearmament of Japan were compounded by concern that any sudden dramatic reduction in the US military presence in the region would also create a dangerous power vacuum and disrupt the balance of power. A more optimistic discussion would stress that the winding down of regional conflict in East Asia makes military force a less useful instrument of policy in the region. But the decline of the perceived Soviet threat also provides less reason for tacit Sino-Japanese agreement on security matters.

In February 1987, spurred by Gorbachev's proposal that the Sino-Soviet frontier should pass along the main channel of the Amur and Ussuri rivers, instead of along the Chinese bank, border talks were resumed after a nine-year lapse. Sino-Soviet cross border trade reached

\$4.5 million in 1986, while total Sino-Soviet trade, standing at \$2.6 billion, showed a 30 percent increase over 1985.

Gorbachev's Vladivostok speech in 1986 focused on the improvement of Sino-Soviet relations as an element in Moscow's new Asia Pacific policy. The Soviets were intensifying their calls for a summit meeting between Deng and Gorbachev, but Beijing remained reticent and continued to link the possibility of holding a summit to the removal of the so-called "three obstacles" to improving relations with the Soviet Union: the Soviet withdrawal of troops from Afghanistan, the reduction of Soviet forces along the Sino-Soviet border and Vietnam's withdrawal from Kampuchea.

In accordance with Gorbachev's proposals at Vladivostok, Moscow started to withdraw its troops from Mongolia and Afghanistan in 1986. Much of the impetus and enthusiasm for developing Sino-Soviet relations seem to have come from Moscow, whose aim was apparently to guard against the establishment of a Washington-Tokyo-Beijing axis. Nevertheless, Beijing responded positively, believing that some further improvement in relations with Moscow was still necessary if Beijing was to acquire the desired degree of maneuverability in its relations with the two superpowers. On the other hand, China was aware that too rapid an improvement in relations with the Soviet Union might make the United States, Japan and Western Europe reconsider their economic policies towards China. Thus Beijing was careful to emphasize the limited progress in Sino-Soviet relations.

Beijing was less concerned with threats from abroad, than with the increasing domestic problems when large student demonstrations took place just outside the Great Hall of the People in December 1986. This was the building where the highest ranking leaders of the Chinese Communist Party (CCP) were gathered to discuss various domestic problems. The serious dispute was over the pace of economic reform between the reformers led by Deng and Hu, and the conservatives led by Chen Yun, Bo Yibo and others.

In this sense, the anti-Japanese student demonstrations were, by nature, quite distinct from the previous textbook controversy. "Forty years ago I chopped 50 Chinese heads off with my sword, but now my firm sells you hundreds of thousands of color televisions," said one student poster showing a 1930 Japanese soldier, which bluntly summed up the feelings of some Chinese. But the student protests were also directed against rising food prices which had quadrupled in the previous two years, poor canteen food, and the privileges given to children of high party cadres. With memories of the Cultural Revolution of the late 1960s and of the Tiananmen rally of April 1976, the Chinese authorities wished to avoid resorting to force to quell any demonstrations but were facing a serious dilemma of how to deal with what they considered "misplaced patriotism" of the students, which turned out to be a source of disorder and could be regarded as a sign of the government's impotence. A situation of this sort was the reality underline the student demonstrations and it continued throughout 1985, regardless of the Japanese Government's response.

In other words, the anti-Japanese student demonstrations were inseparable from Chinese internal affairs, or to be more specific, from the problems created by the reform movement and "open-door" policy under the Deng and Hu leadership.

By the mid-1980s, there appeared to be significant progress, at least in terms of administrative reform. There were large-scale changes in party and government personnel, with aged cadres giving way to younger, better educated, and more professional ones. There were important efforts to decentralize authority. Elections at the lower levels came to involve more candidates than available posts. Delegates at sessions of the National People's Congress became more outspoken and sometimes actually delayed and modified legislation proposed by the State Council.

Also contributing to the generally relaxing atmosphere was the media began to redeem itself after years of putting readers and listeners to sleep by raising more interesting issues, and some writers bravely tested limits by exposing of government misdoings. But the euphoria and expectations generated in the summer of 1986 gave way to frustrations and anger by the fall, and this formed an important backdrop to the massive and widespread student demonstrations in December. This protest and its handling led to the forced resignation of reformist General Secretary Hu Yaobang in January 1987. As is well known, Hu was removed in disgrace from the top of the party at an expanded Politburo meeting for having been "too soft" on bourgeois

liberalism, which resulted in nationwide student demonstrations that swept major Chinese cities during the preceding months.

Hu Yaobang's "mistakes", revealed by China's internal Party documents, included his invitation to 3000 Japanese students to visit China as guests of the government in 1985 as well as his invitation to Prime Minister Nakasone to visit China in 1986. Both invitations were made on his own initiative without consulting other Chinese leaders.

According to some sources, there was a rise in the influence of the conservatives, who stuck to the orthodox Marxist-Leninist line in China's foreign policy. The swing in the Chinese political pendulum to the left was bound to be reflected in a heightening of anti-Japanese policy since the conservatives were old communist cadres who fought the anti-Japanese war and still held a "potential grudge" against Japan. Deng Xiaoping's earlier remarks criticizing Japan by connecting what appeared to be two irrelevant issues -- Kokaryo and the "revival of Japanese militarism" -- should be understood in this context. The Chinese leaders would become very emotional over the Kokaryo issue because they seemed reluctant to concede a victory to Taiwan, the seat of the rival Nationalist Chinese government.¹⁰⁰ On August 8, the *Xinhua* News Agency denounced a mission to Taiwan by Japan's ruling party and said that some Japanese were trying to sabotage friendly Sino-Japanese relations by creating "two Chinas."¹⁰¹

¹⁰⁰ *The Japan Times*, June 8, 1987.

¹⁰¹ *People's Daily*, August 6, 1982.

In the economic field, China regarded the West, and in particular Western Europe, as a source of technology that could be tapped without becoming a political liability. Although the EEC accounted for only 11 percent of China's trade as opposed to 12 percent by the United States, and 20 percent by Japan at 1988, the Chinese took firm steps to promote trade with the EEC.¹⁰² Japan played a vital role in opening China to the West, but it was not in Western economic interests to let Japan monopolize the China market. Even if Japan and the EEC were basically competitors in the China market, there was no reason why the EEC should favor a disruption of the Sino-Japanese economic relationship. Many EEC companies actually won contracts being funded by Japanese loans (for example, the 11.5 million Chinese contract for the twenty-six telephone exchanges awarded to Western European companies in October 1987, which is to be financed by the Overseas Economic Cooperation Fund of Japan). More importantly, there was a strategic dimension to the Sino-Japanese economic relationship which could, if disrupted, threaten the stability of the whole region.

1988 was a disastrous year for the reformers. Deng Xiaoping himself impatiently sought to push forward price reform despite the concern on the part of more conservative reformers that the economy was too fragile. The headstrong radical policy collapsed by late summer as inflation and uncertainty led to hoarding and runs on banks, necessitating a humiliating reversal of policy for the radical reformers.

¹⁰² *The European*, Vol. 1, No.6, p.30.

This reversal reduced the real authority of Zhao Ziyang and seriously dampened prospects for reform just as the political position of the conservative faction inspired by Chen Yun and represented by Premier Li Peng was greatly improved.¹⁰³

In the beginning of 1989, the Chinese government adhered to the new retrenchment program adopted the previous fall. This soon reduced the inflation rate, but unemployment began to increase, particularly among urban construction workers. Reforms were stalled, and the reformers and their patrons were on the defensive. It was clear that conservatives were planning to get rid of Zhao.

¹⁰³ A good account of these developments is in Willy Lam, *The Era of Zhao Ziyang, Power Struggle in China, 1986-1988* (Hong Kong, A.B. Book & Stationary Ltd. 1989).

Summary and Conclusion:

This was a precarious period in Sino-Japanese relations. China and Japan experienced serious controversies in their political and economic relations.

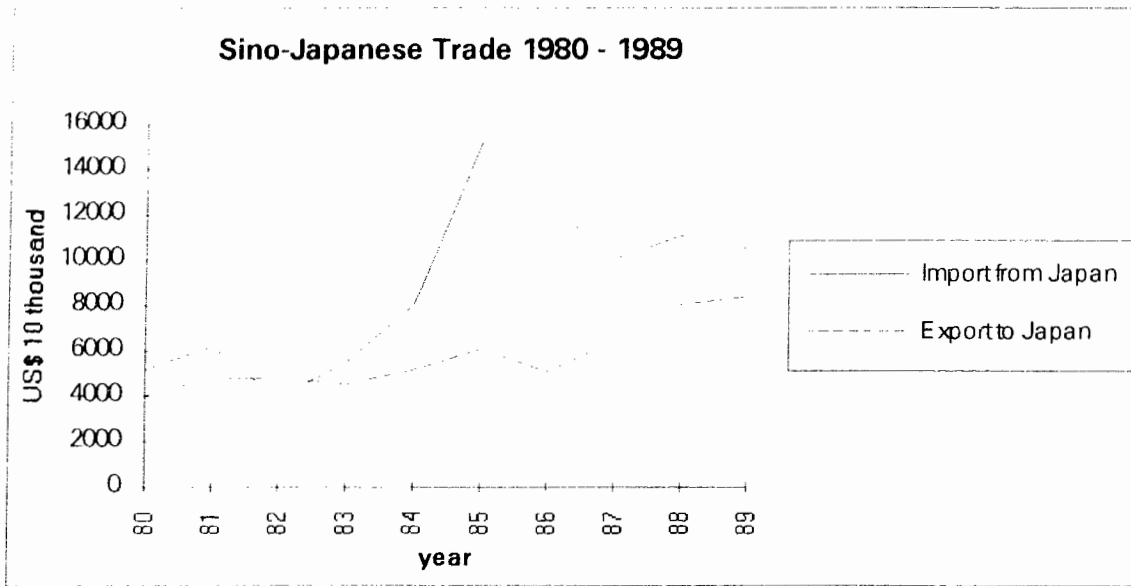
First, the changing situation in the Asia Pacific area resulted in the readjustment of Chinese foreign policy. Such an adjustment undoubtedly influenced Sino-Japanese relations. For military security reasons, China had aligned with the Soviet Union in the 1950s and then shifted from that position to alignment with the United States in the 1970s. Starting in 1982, China began to readjust its position in the US-USSR-PRC triangular relationship and to pursue an "independent foreign policy." The Chinese government made great efforts to consolidate and manage Sino-American relation. At the same time, it took practical steps to improve the relationship with its Soviet Union, so as to increase its room for maneuver in foreign affairs and to obtain a more secure international environment for its economic development. Chinese leaders believed that there would be no direct threat toward their country in the near future. Development issues replaced security issues as the primary national interest of China.

Following the decline of the Soviet power in the Pacific Asia area, China became more and more concerned about Japan, its old friend and enemy: where it would go and what it would do. The textbook and defense budget problems reflected such concerns. Chinese leaders preferred Japan to be a subpower under the control of the United States

to balance the power distribution in the Asia Pacific region rather than seeing Japan behave as an independent power in the region.

Second, the domestic situation of China became a more important factor in the evolution of Sino-Japanese relations during this period. Deng's reforms caused a huge structural transformation in the Chinese political and economic system, and resulted in power struggles among the Chinese leaders reflecting political and economic differences. Hua Guofeng (1982), Hu Yaobang (1986), and Zhao Ziyang (1989) were removed from their position as they lost out in the power struggle. Sino-Japanese bilateral trade was strongly influenced by the changing political weather, and the unstable economic situation in China during this period. Hua Guofeng's resignation was followed by a three year economic readjustment, contract cancellations with Japan, and a sharp decrease in China's imports from Japan.

China had changed rapidly from a centrally planned economy to a mixed economy, from ideological dogmatism to a more pragmatic approach, and from isolationism to active participation in the international community. China established a widening network of economic relations which diversified its foreign trade relations. Even though Japan was still China's number one trading partner in the world, the percentage of Sino-Japanese trade in China's foreign trade declined from 32 percent in 1985 to 18 percent in 1989.



Source: Direction of Trade Statistics Yearbook, International Monetary Fund, various years.

The historical perspective shows more negative influence on Sino-Japanese relations during this period. The textbook dispute, the Yasukuni Shrine problem and the anti-Japanese student demonstrations reflected the common attitude of Chinese toward the history of Sino-Japanese relations. For most Chinese, the two thousand year friendship was merely a vague notion. Fresh in their memory were the invasions and conquests of 1894, 1931, and World War II which brought to China the harshest aspects Japanese militarism. Many living Chinese well remembered the cruel behavior of the Japanese army. Even though China and Japan established the Sino-Japanese Friendship Committee for the 21st Century, at the instigation of Hu, based on the intention to enhance the traditional friendship between the two countries, the committee had no influence on decision making when bilateral relations encountered serious difficulties.

CHAPTER IV

1989 -- 1992

TIANANMEN SQUARE INCIDENT AND AFTER

The world was shocked by the Tiananmen Square Incident. Beijing was condemned by international society and experienced the most difficult period in its foreign relations since Deng Xiaoping started his reforms. But the development of Sino-Japanese relations during this period seemed to be an exception in the international environment after the Tiananmen Square Incident. The response of Japan to the massacre made Beijing turn to Tokyo when the relations between China and Western countries, especially the United States, were strained. Sino-Japanese relations went into a new period after the stormy years from 1986 to 1988. Developments after the Tiananmen Square Incident juxtaposed the contending economic and political factors that affected Sino-Japanese relations. The two sides successfully placed economics ahead of politics, avoiding acrimonious public exchanges while accelerating high-level visits suspended after June 4, 1989.

Compared with the swift and strong reaction of the United States and West Europe, Japan's response to the Chinese military crackdown was a policy of careful watching and waiting. As more and more news regarding the use of force became available, Tokyo realized that the present Chinese situation posed "the most serious challenge" to bilateral relations. If the resort to violence in China continued and intensified, Japan knew that this would not only affect China's modernization program, which formed the core of Sino-Japanese relations, but also would make further investment and trade with China risky. But the

most important reason was that any prolonged political and economic instability in China would disturb the atmosphere of reduced tensions in East Asia.

The first response of the Japanese government was a Foreign Ministry Spokesman's statement that it was unfortunate that force had been used to quash the political unrest on June 4, 1989. He hoped that the situation would not lead to more bloodshed. On June 5, Shiokawa Masajiro, the new chief cabinet secretary issued a statement containing the following points. 1) Japan was closely monitoring the developments in China; 2) it was regrettable that so many people had lost their lives; and 3) Japan was hoping for a speedy end to the political turmoil. He also mentioned that Japan could not take sanction against China because Sino-Japanese relations were "burdened by the heavy history of the past."¹⁰⁴ Two days later, Deputy Foreign Minister Murata Ryohei called Chinese Ambassador Yang Zhenya to his office and handed over a note to convey the position of the Japanese government on the Chinese political situation. This carefully worded note included the points made earlier by Shiokawa, and stressed that Japan had no intention of "interfering in the internal affairs of China," but it wanted China to observe "self-restraint" in dealing with the students.¹⁰⁵

¹⁰⁴ Hidenori Ijiri, "Sino-Japanese Controversy since the 1972 Diplomatic Normalization, *The China Quarterly*, December 1990, p.656.

¹⁰⁵ K.V. Kesavan, Japan and the Tiananmen Square Incident, *Asia Survey*, No.7, July 1990.

In the meantime most Western countries condemned the use of military force in the Tiananmen Square sharply and absolutely. President George Bush announced a number of measures aimed at stopping military supplies and freezing high-level contacts with China on June 5. Chinese Foreign Trade Minister Zheng Tuobin was refused permission to attend a conference held by the EEC. All this made Japan's response look inadequate, and too soft.

As a reply to the question raised by opposition parties in the Diet on June 7, Uno Sosuke, the new Prime Minister, only regretted the "unfortunate" developments, adding that he would not like to make a "black and white judgment" as the Chinese situation was extremely fluid." Uno also explained that Japan could not blindly follow the United States as it had to keep in mind its own long, historical ties with China when he was asked that why he did not announce any sanctions against China.¹⁰⁶

Although the Japanese government was unwilling to apply "sanctions" against China, it was not in a position to prevent criticism from home and abroad. Japanese officials knew that the China question would be discussed at the summit of the Group of Seven industrially advanced countries in Paris on July 14. The Japanese government felt that the participating countries might take a serious view of its position on China and that it would be helpful to have prior consultations with Washington. Accordingly, Foreign Minister Mitsuzuka visited

¹⁰⁶ *The Japan Times*, June 7, 1989.

Washington June 25 -- 28, and China was the major subject in his talks with President George Bush and Secretary of State James Baker. Mitsuzuka expressed the opinion that the isolation of China could destabilize the present security structure of East Asia and lead to serious consequences. Both Bush and Baker agreed that China should not be pushed into a position of isolation and that they should try to convince China that it would be in its own interests to implement effectively its modernization and liberalization program.

Meanwhile, the foreign ministers' annual conference of the Association of Southeast Asian Nations (ASEAN) held in Brunei in the first week of July provided Japan with an opportunity to mobilize support for its line of thinking on China. At the conference, Mitsuzuka forcefully argued: "If we isolate China, we will drive it closer to the Soviet Union. It may not be a wise policy." The outcome of the conference was quite satisfactory to Japan. U.S. Secretary of State Baker made no reference at all to China in his speech, and the foreign ministers of Canada, New Zealand and Australia condemned the military action of China but stressed that they would not break with Beijing. The ASEAN countries agreed with Japan's position because they needed China's cooperation for the solution to the Cambodian problem.

In the second half of June, Oishi Masamitsu, an LDP Diet member, visited Beijing and met with several senior Chinese officials so as to obtain a first hand view of the most recent situation in China before the Paris summit. On his return, he told Prime Minister Uno that Chinese leaders highly appreciated Japan's understanding of the political

situation in China and that they expected its continued economic assistance.¹⁰⁷ During the first week of July, Japan's ambassador Nakajima Toshijiro returned to Tokyo to brief the government. He reported that the CCP Central Committee had already formed a new leadership and settled the "political confusion" in China. He was confident that the new leadership would continue to pursue modernization and economic liberalization, although it also showed a strong position not to yield to foreign pressure. He strongly believed that China would continue to place stress on economic cooperation with Japan.¹⁰⁸ In the meantime, Prime Minister Uno also met with ex-Prime Minister Nakasone to consult with him about Japan's position on China before he went to the Paris summit. Nakasone thought that Japan should deal with Sino-Japanese relations very carefully because Japan was the nearest industrialized country of China in the world, and there were huge economic interests between Japan and China.

At the Paris summit, both Uno and Mitsuzuka worked hard to put their views across to the other leaders. They pointed out that harsh measures would force China to deviate from its modernization program and resort to a policy of "anti-foreignism" with dangerous implications for the Asia-Pacific region. The final outcome of the conference was "conciliatory" in that it did not apply any new joint sanctions against China. The summit declaration stated: "We look to the Chinese

¹⁰⁷ *Cankaoxiaoxi*, July 2, 1989.

¹⁰⁸ *Cankaoxiaoxi*, July 8, 1989.

authorities to create conditions which will avoid their isolation of movement toward political and economic reform and openness."¹⁰⁹

China's reaction to the summit statement was quick and sharp. On July 18, Chinese Acting Ambassador Tong Jiakuan told Ikeda, a Foreign Ministry official sent by the Japanese government to explain why Japan had joined the other six countries in issuing the summit declaration. According to the Chinese government the declaration constituted "reckless interference" in the internal affairs of China, but he assured Ikeda that his country would not change the status of its relations with Japan¹¹⁰.

After the repression of the Tiananmen Square Demonstration, the U.S. Congress put pressure on President Bush to stop World Bank loans to China, and on June 26 the Bank postponed these loans (US\$780 million, mostly from the United States and the European Community) in response to this pressure. In the last week of September the World Bank again considered the question of resuming loans to China, but failed to make a decision due to resistance, particularly from the United States. On September 26, the Banking Committee of the U.S. House of Representatives passed a resolution opposing loans to China by the World Bank until Beijing ended "repression" against pro-democracy elements. And on November 21 Bush signed a bill that made available a \$956 million contribution to the World Bank for loans to developing

¹⁰⁹ *Cankaoxiaoxi*, July 18, 1989.

¹¹⁰ *People's Daily*, July 19, 1989.

countries, which included a condition that \$115 million of the total would not be available until the president certified that the loans given to China would promote individual freedom and human rights.

Since the Tiananmen Square incident, relations between China and Japan have been affected. But it would not have benefitted either country to allow bilateral relations to remain in an abnormal state for an extended period. Thanks to careful management on bilateral relations during this crisis period from both sides, Beijing and Tokyo are on better terms now than at any point in the twenty years since the resumption of relations in 1972.

Faced with the problems in relations between China and the West, Japan felt that its role as both an Asian country and as a member of the Western block meant that it should find ways to let China assume a stable position in the international community. This means that Japan may have to move a step or two ahead of other Western countries.

Japanese leaders believed that they understood China better than most Western countries. A basic difference between Japan and the other Western countries, especially the United States was their approach to China's "democratization." By and large, Japanese leaders believed that Deng Xiaoping's modernization program had already placed China on the road to reform and openness. Because of some resemblance in historical background with China, Japanese also questioned the wisdom of applying "Western standards" of democracy and liberalism to the Chinese situation. According to Japan's opinion, the best way to influence the

Chinese situation was not through economic sanctions and diplomatic isolation, but through economic assistance. They believed that economic development would result in political progress. A worsened economic situation in China would cause political turmoil. Japanese leaders clearly understood that a stable political situation was more important than "democracy" in a country like China with such a huge territory and population.

Even though Tokyo did not want to offend Washington at a time when American-Japanese relations were facing problems in such areas as trade, investment and defense cooperation, when Kaifu Toshiki, the new Prime Minister of Japan, met President Bush in Washington on September 31, 1989, he stressed the need for coordinated action on aid to China.

The Japanese government also encouraged interaction with China at the semi official and unofficial level. Since August 1989 a number of important individuals and economic delegations have visited China. In the third week of August, Utsunomiya Tokuma, an influential Diet member and president of the Japan-China Friendship Society, visited Beijing and discussed the political situation with Li Peng. In September former Foreign Minister Ito Masayoshi led a delegation from the Diet to China, which included JSP, Komeito, and DSP members. The delegation met with Deng Xiaoping, Jiang Zemin, Li Peng and other Chinese leaders. Concluding the visit, Ito said that Japan's economic assistance

was essential in maintaining China's open policy. Ito's visit encouraged more business leaders to visit China.¹¹¹

During the second week of September, Kawai Ryoichi, the Chairman of the Japan China Economic Association, led an important economic mission to China. The main purpose of this semiofficial mission was to find out how Japan could best help the Chinese economy. The Japanese business group were told about Chinese concerns about Japan's yen loans. Chinese leaders feared that their government would have to revise and reduce the target of the Eighth Five-Year Plan, if Japan's assistance were to be unduly delayed.

After US National Security Adviser Brent Scowcroft visited Beijing in December 1989 to improve relations with China, Japan invited Zou Jiahua, head of the Chinese Planning Commission, to visit Japan in January 1990, presumably to make preparations for the resumption of the third yen credit. Zou was the first Chinese official to visit Japan since the June political turmoil, and he stayed for more than a week to discuss China's economic needs with Japanese government and business leaders. The World Bank's decision to unfreeze its loans to China pleased Tokyo, because it seemed to have cleared the way for Japan to restore its economic relations with China.

In late 1990 a minor incident threatened relations as a result of conflicting claims to the Senkaku Islands, known in Chinese as the

¹¹¹ Hidenori Ijiri, "Sino-Japanese Controversy since the 1972 Diplomatic Normalization, *The China Quarterly*, December 1990, p.658.

Diaoyutai Islands. These uninhabited rocky outcroppings are located roughly 100 miles northeast of Taiwan. Although claimed by Beijing and Taipei, they have been administered by Tokyo since Washington handed them over together with Okinawa in the early 1970s. In 1978, more than 100 mainland fishing boats sailed around them with signs claiming ownership, but the two sides agreed to shelve the dispute in favor of agreement on the Treaty of Peace and Friendship. The issue had no immediate importance. But the long range significance of the islands is that the offshore continental shelf around the islands to be believed to have vast oil reserves under the East China Sea.

In September 1990 a right-wing Japanese group won recognition from Tokyo that a lighthouse it had built on one island could be illuminated as an official beacon. Reports in Taiwan prompted an official expression of concern there on October 13 together with demonstrations mounted in Taipei and Hong Kong . When a Taiwanese group attempted one week later to place a symbolic sporting event torch on the islands, it was repulsed by a Japanese Maritime Safety Agency patrol boat and a helicopter. This triggered a stronger protest movement in Taiwan and Hong Kong.

From the very outset, however, Beijing walked a careful line. Authorities reportedly refused permission to university students, teachers, and staff who had applied through channels to demonstrate against Japan on October 20. On October 18, Beijing's Foreign Ministry spokesman called on Tokyo to block the lighthouse as a violation of Chinese sovereignty, reiterating this position at his next weekly press

conference.¹¹² Not until October 27 did Vice Foreign Minister Qi Huaiyuan belatedly expand on the protest in "an urgent appointment" with the Japanese ambassador. Qi asserted China's "indisputable sovereignty" but recalled that the two sides had agreed in 1972 to "shelve the dispute" until a later date. After protesting both the lighthouse and the warships blocking Taiwanese boats, he proposed that the two sides consult on "shelving the sovereignty, jointly developing the resources in the waters around the Diaoyutai islands, and opening the local fishing resources to the outside world."¹¹³

The incident coincided in time with two contrasting developments pertinent to Sino-Japanese relations. On the one hand, Prime Minister Kaifu was endeavoring to send SDF personnel to the Gulf crisis. On the other hand, Premier Li Peng was virtually expecting Japan to expedite resumption of loans. Rather than beat the media drums over the islands and link them with the SDF-Gulf proposals as evidence of Japanese militarism or allow anti-Japanese student demonstrations, the Chinese leadership chose to limit its response to official protests supplementing cooperative proposals. It blocked efforts by National People's Congress delegates from Hong Kong to have the issue debated and to force ministerial action on sovereignty. It imposed a news blackout on mainland media reporting of demonstrations elsewhere and restricted harsh commentary to the Communist press in Hong Kong as

¹¹² *Xinhua* in English, October 25, 1990.

¹¹³ *People's Daily*, overseas edition, October 29, 1990.

necessitated by the local popular reaction.¹¹⁴ The loans proved forthcoming, but handbills reportedly circulated clandestinely in Beijing were headlined, "We want the Diaoyutai Islands, Not Yen."¹¹⁵

On December 5, 1990, however, Japan extended a symbolic \$3.5 billion grant to China for modernization of a hospital in Shanghai and a television station in Beijing. On November 2, 1990, an agreement for the first term of the third Japanese yen loan was signed in Beijing.¹¹⁶

From the view point of Beijing, Japan is very important to its modernization program. Beijing wants to obtain Japanese capital through investment and loans as well as Japanese technology through trade and investment. In the long run, Japan can hardly fail to be the number one supplier of technology, capital goods and management know-how to China. On the other hand, China seems bound to go on looking to Japan as the major market for its minerals and farm products. But the more important attitude change of Beijing after the Tiananmen Square incident is that Japan is now viewed not only as an economic helper to China's modernization program but also as a political communicator between Beijing and the West, if necessary.

¹¹⁴The long nationalistic commentaries in *Ta Kung Bao* and *Wen Hui Bao* stood in stark contrast to the virtual silence in the mainland press, all presumably with official guidance.

¹¹⁵*Cheng Ming*, November 1, 1990.

¹¹⁶*People's Daily*. November 2, 1990.

In contrast with the continued resurgence of resentment engendered by recalling past aggression, Chinese statements after Tiananmen and its foreign repercussions emphasized appreciation for Tokyo's help in political rehabilitation as well as economic modernization. The change of tone resulted from the lower level of Japanese criticism over the massacre compared with that voiced by Australia, France, Britain, Canada and the United States. This was followed by Tokyo's pressing the G-7 at Houston in July 1990 to lift sanctions, exemplified by Japan's reopening the loan window. By 1991, Prime Minister Toshiki Kaifu was ready to visit China, moving ahead of his Western counterparts in restoring exchanges at the highest level. Sino-Japanese discussions reportedly included a historically unprecedented visit by the newly installed Japanese emperor as a celebrant in Beijing for the commemoration of the twentieth anniversary of resumed relations in 1992.

Chinese treatment of the Japanese defense posture and prospects also changed radically from pre-Tiananmen years. Previously, as might be expected, the sharpest tone of concern had ritualistically come from the military newspaper, *Liberation Army Daily*, portraying budget increases and weapons acquisition in ominous terms. But its detailed analysis of the new five-year program for the Self-Defense Forces (SDF) adopted in December 1990 specifically identified the anticipated air capability "to retaliate against air attacks" and to provide "air defense over important areas." Likewise, naval growth was "to strengthen defense of the surrounding waters" while ground-force improvements were "to stop the enemy from landing." Meanwhile, "logistics takes up

the biggest proportion in the budget... in order to strengthen the rear line." To be sure, the analysis closed with the standard assertions of Japan's "relentlessly and vigorously" carrying out "its massive arms expansion," despite the world's moving toward detente. But the enumeration of specific weapons systems and their functions belied serious concern while informing the reader far better than had the earlier analyses.¹¹⁷

Likewise, the opportunity to voice alarm over Kaifu's various abortive efforts to participate in the multinational coalition against Iraq in 1990-1991 was virtually bypassed, except for immediate reaction to proposals for SDF involvement in non-combat roles. Instead, Kaifu was shown to face "double pressures both at home and abroad" that juxtaposed demands from Congress and requests from Bush for "the maximum contribution possible" against resistance from the Ministry of Finance, public demonstrations, and opposition parties.¹¹⁸ China's official news agency carried reports on Japanese public opinion polls were that an overwhelming majority opposed to sending SDF forces overseas in any capacity.¹¹⁹ Later, a smaller majority opposed using transport planes to ferry Vietnamese refugees out of the Persian Gulf area, and a near majority was against any financial support for the war. Again, as in the military analysis, the final tone was negative, citing conservative

¹¹⁷ Xi Zhihao, "Japan's New Five-Year Arms Expansion Plan," *Liberation Army Daily*, January 28, 1991.

¹¹⁸ Wang Huimin, "Japan's Countermeasure for the Gulf War," *Liaowang*, January 28, 1991.

¹¹⁹ *Xinhua Domestic Service*, November 10, 1990.

pressure to re-interpret the antiwar constitution so as to permit sending troops abroad and noting that the result of such a re-interpretation could only be apprehension among the citizens.¹²⁰

Another area of exploitable anxiety in China and East Asia is Japan's nuclear weapons future. Contrary to the line of unspecified concern and negative innuendo manifest in the pre-Tiananmen media materials, a prominent world-affairs journal bluntly concluded, "We believe Japan will not make such a bad decision" as to develop nuclear weapons. In addition to asserting that Japanese "nationals have always detested atomic war" because of firsthand experience, the author spelled out Japan's vulnerabilities to nuclear retaliation: "a narrow island country... void of strategic depth... only a very brief warning period against missiles... a high density of factories and population." He even calculated the consequences of conventional warheads hitting any of Japan's forty nuclear energy reactors.¹²¹

None of these articles omitted the cautionary caveats that once constituted the only line. All cited the steady increase in Japanese defense spending, usually noting that it ranks third in the world without specifying the order of magnitude separating it from the top two superpowers. The caution is justified insofar as it is objectively impossible to predict Japan's military posture ten years hence. Subjectively, however, there is resistance to redefining Japan in wholly

¹²⁰ *Xinhua Domestic Service*, February 6, 1991.

¹²¹ Zhou Jihua, "The Trend of Japanese Defense Policy," *World Knowledge*, January 16, 1991.

favorable terms, resistance that probably varies in intensity within the Chinese leadership, which is similarly divided on other questions of domestic as well as foreign policy. That division cautions editors and writers not to go too far on this sensitive matter, guidance in foreign policy analysis always being close at hand.

The particular details of individual issues take on importance only within the larger frame of reference within which the Chinese leadership, and to a remarkable extent the Chinese people, view Japan and the Japanese. That frame of reference was fifty years of expansionism and aggression, underscored by the eight-year invasion of 1937 - 1945. "Remembering the past provides a guide to the future," a standard maxim in Chinese writings about Japan and serves to focus old memories and new consciousness on the invasion, with the Nanjing massacre of December 1937 conveying the sharpest image of Japanese brutality. That atrocity, wherein perhaps 300,000 Chinese soldiers and civilians died during six weeks of uncontrolled rape, plunder, and slaughter, has become the touchstone of nationalism in China.

Thus, in the fall of 1990, Shintaro Ishihara, Tokyo's former minister of transport, and coauthor of the celebrated *Japan That Can Say No*, declared in an American Magazine interview that the Nanjing massacre "is a lie fabricated by the Chinese." *The People's Daily's* rebuttal vividly described how "Japanese invading troops began burning, killing, raping and looting for six weeks. Wherever they went, mountains

and rivers were dyed with blood and the sun and moon turned pale."¹²² Lesser levels of reaction follow when Japanese scholars challenge the accuracy of the Chinese casualty count or when Japanese high school textbook dismiss the event as an "incident" occasioned by "turmoil" or "civilian resistance." The issue won renewed attention in February 1991 with the discovery of a 190-page document in the German archives detailing the massacre on the basis of eyewitness reports at the time. *Liaowang*, a mainline Beijing journal, reprinted the entire report, including graphic accounts of gang rape and killing.¹²³

After the Tiananmen Square incident, a series of events happened in the world. A "democratization movement" swept up through the entire socialist camp in Eastern Europe at the end of 1989. Gorbachev's political reform caused political turmoil and economic disturbances in the Soviet Union. As a result of power declination, Moscow lost its control over the East Bloc. The disintegration of the Warsaw Pact, the reunification of Germany, the victory of Bush in Kuwait, and the weak effort of Gorbachev to stop the war in the Gulf indicated that the Soviet Union as a superpower was becoming history.¹²⁴

¹²²"Lies Cannot Cover up the Bloodstained Facts," *People's Daily*, October 19, 1990.

¹²³The Chinese report on the German archives quoted an eyewitness report that "about 20,000 Chinese women were known to be raped and tens of thousands of others killed." A summary account claimed that more than 30,000 corpses floated on the Yangtse River as late as March 4, 1938. These estimates allegedly coincided with findings of the Far Eastern International Military Tribunal that estimated that "190,000 Chinese were killed or buried alive en mass in addition to 150,000 killed individually." *Liao Wang (Outlook)*, February 10, 1991, pp.15-16.

¹²⁴Bih-jaw Lin ed., *The Aftermath of the 1989 Tiananmen Crisis in Mainland China*, Westview Press, Boulder, 1992, pp.389-416.

In response, Beijing's foreign policy line explicitly rejected the alleged scheme of "peaceful evolution" being promoted abroad that was conceded to have support from within the country. This negative perception, combined with international sanctions and growing isolation in the world economy, made China's leaders more defensive and determined to keep China one of the few remaining bastions of socialism.

In addition to promoting a peaceful-coexistence version of the new world order, China embarked upon a post-Tiananmen foreign policy initiative that is distinct in two ways. One is its inherent, conscious effort at purging ideology from foreign policy, in that national interest will replace socialist "moralism." In other words, the PRC will no longer sacrifice its own interests for the sake of advancing socialism in the Third World. The other distinct feature is what emerges as a schematic pattern of realignment efforts. These are aimed at bolstering China's foreign relations and, in some instances, even at making diplomatic breakthroughs, such as in the normalization of relations with South Korea, Vietnam and Israel.

This foreign policy initiative coincides with Beijing's endeavor to break its diplomatic isolation after the Tiananmen Square Incident. The first giant step toward the latter goal was the visit by Prime Minister Toshiki Kaifu of Japan in August 1991. Beijing also mounted what appeared to be a systematic, purposeful campaign of crisscross missions abroad by China's top leaders: Foreign Minister Qian Qichen's tour of Botswana, Zimbabwe, Angola, Zambia, Mozambique, and Lesotho in July

1989; Premier Li Peng's visits to Pakistan, Nepal, and Bangladesh in November 1989; President Yang Shangkun's May 1990 excursion to Latin America; President Yang's missions to Pakistan and Iran in October 1991 and to Singapore and Indonesia in January 1992; Premier Li Peng's visit to Singapore and Indonesia in the summer of 1991, followed by his December visit to India; Foreign Minister Qian's tour of six African countries - Mali, Guinea, Ghana, Senegal, Cote d'Ivoire, and Namibia in mid-January 1992; the late January 1992 visit by Premier Li Peng to Italy, Switzerland, New York, Malta, Portugal, and Spain; Foreign Minister Qian's mission to Western Europe in March 1992; Deputy Premier Zhu Rongji's mid-February 1992 visit to Australia; a visit to Japan by General Secretary Jiang Zemin of the CCP in April 1992, when he extended a personal invitation for the emperor to pay a state visit to China later in the year; Foreign Minister Qian's sally to Australia and New Zealand in mid-June 1992; and the visit by Wan Li, head of the National People's Congress, to Japan in May, 1992.¹²⁵

Deng Xiaoping's vaunted reputation for economic pragmatism laid the basis for Sino-Japanese relations over most of the past decade, especially after the Tiananmen Square Incident. An uneven tripod of trade, loans and aid, and investment supports the basic structure of the relationship. Aside from Hong Kong, which serves as both an indigenous trading partner and an entrepot for China's interaction with other countries, Japan consistently ranks first, with roughly one-fifth of China's total foreign trade. In 1990, the \$18.18 billion worth of goods

¹²⁵These information were according to the news of Chinese newspapers during this period.

exchanged between the two neighbors left Beijing with a comfortable \$5.6 billion surplus.¹²⁶ This fell 7.5 percent below the peak level of 1989 as Beijing attacked inflation and an overheated economy, with imports from Japan declining by 28 percent in the process. The past cyclical pattern of the economy suggested that the previous peak level would soon be surpassed, however.

While Japan's importance in Chinese foreign trade has remained consistent, the balance of trade has varied widely, depending on the mainland's import practices. Thus, during much of the 1980s, decentralization and the expansion of consumer purchasing power prompted coastal areas to order massive quantities of automobiles, washing machines, refrigerators, and television sets. The cumulative trade deficit with Japan surpassed \$6 billion in 1986 and Beijing's foreign exchange reserves plummeted from \$17 billion to \$11 billion. This in turn sparked heated demands for Tokyo to remedy the imbalance by opening its market and facilitating the import of Chinese products, basically to no avail. Only when Beijing clamped down on the profligate importation of consumer goods, limited the availability of foreign exchange, and improved quality control over export commodities, did the trade balance shift in China's favor.

Sino-Japanese trade is certain to remain important, but its importance is inherently asymmetrical in both quantitative and qualitative terms. On one hand, China has the food stuff and natural

¹²⁶ Data from customs statistics of the Japanese Ministry of Finance, *China News Letter*, March-April 1991.

resources, especially coal and oil, essential to the Japanese economy. It also has a growing market for the aforementioned consumer goods. For its part, Japan has the technology, machinery, chemical products, and metallic products essential to China's modernization. On the other hand, trade with China is unlikely to surpass 4-5 percent of total Japanese foreign trade, at least in this decade, as compared with Japan's continuing command of roughly one-fifth of the Chinese import. Furthermore, China's commodity exports to Japan -- first and foremost, oil -- are vulnerable to world price changes while modernization will demand more energy resources, reducing their availability for export. Finally the limited purchasing power of 1.1 billion consumers will increase only incrementally.

Sino-Japanese trade benefits from many factors in comparison with China's other trading partners. Geographic proximity, seaborne commerce, linguistic complementarity, historical familiarity with local conditions, and the Japanese focus on long-term benefits rather than short-term returns all combine to give Tokyo advantages over its competitors worldwide. The asymmetry of need and capability, however, makes unbalanced trade a recurring threat for Beijing as modernization increases demand for imports more quickly than it provides suitable and competitive exports. This in turn may burden the political relationship between the two countries. Beijing may try to remedy the problem by pressuring Tokyo as it did in the 1980s.

To maintain some control over this situation, the two sides have signed long-term trade agreements, with modest success.¹²⁷ Its original yearly commitment of 13 - 15 million tons of oil, however, proved unrealistic, to the dismay of Japanese refiners who had invested in special facilities to process the high paraffin crude oil from the main well in northeast China. A new five-year pact signed on December 18, 1990 targets 8.8 - 9.3 million tons of Chinese crude oil per annum together with 3.7 - 5.3 million tons of coal. In return, Japan is to deliver \$8 billion in technology, sets of equipment, and construction equipment.¹²⁸

The second leg of the economic tripod, loans and aid, is the strongest as the Chinese are well aware. As the primary governmental source of such assistance, Tokyo has gone further than any other capital in underwriting Beijing's vast program of modernization. In 1988, Japan offered a five year loan of 810 billion yen (\$5.2-\$5.6 billion, depending on exchange rates) for basic infrastructure projects in China.¹²⁹ Tokyo suspended implementation of the loan after the June 1989 incident but reopened the window in late 1990 with \$350 million, at 2.5 percent with a 30 year payback, for hydroelectric power stations, reservoirs, water supply facilities, a chemical-fertilizer plant, and highways. In January 1991, Tokyo's minister of finance became the first Japanese cabinet official to visit Beijing after the Tiananmen Square

¹²⁷The initial agreement of 1978 -- 1985, extended for another five years, provided 110 million tons of Chinese oil and 39 million tons of coal.

¹²⁸*Xinhua in Chinese*, September 18, 1990. pp.10-11.

¹²⁹Yoichi Yokoi, "Contracts and the Changing Pattern of Economic Interdependence between China and Japan," *The China Quarterly*, December 1990, p.705.

incident, signaling the mutually perceived importance of financial interaction. He announced that the Japanese Export-Import Bank window was open to China and pledged additional help through the World Bank and the Asian Development Bank. The following month, sources in Tokyo claimed Beijing was asking for another \$6 billion loan, over and above the 1988 amount, to develop new oil fields and coal mines.¹³⁰ This same request had previously gone to the Export-Import bank in early 1989 after the bank had provided roughly 1 trillion yen in two five-year untied loans in 1979 and 1984, but the request was shelved after the June incident.

Japanese generosity has mixed motivations to which the Chinese are quite sensitive. When the American occupation of Japan ended, Washington forced Tokyo to establish diplomatic relations with the Chinese Nationalist regime that had fled to Taiwan instead of with the newly proclaimed Communist regime. For his part, Chiang Kai-shek renounced reparations from Japan despite the eight years of invasion. Premier Zhou Enlai perforce followed suit in 1972 to facilitate Tokyo's transferring recognition from Taipei to Beijing. Thus, for many older Japanese, a sense of guilt over the death and destruction inflicted on China prompts loans and aid in lieu of reparations. On occasion the Beijing leadership tries to exploit this guilt in calling for trade concessions and long-range investment as recompense for past aggression.

¹³⁰ *Xinhua in Chinese, FBIS*, February 19, 1991, p.7.

In addition, Tokyo recognizes that loans and grants are likely to benefit Japanese contractors, especially since specific project approval comes through intensive interaction between experts and bureaucrats on both sides. There is no need for formal agreements on this score. Sometimes this can backfire against the Japanese when a badly designed project is aborted, as with the first gigantic steel complex near Shanghai. More frequently, however, it provides an unbeatable advantage against other foreign competitors.

Last but not least, Japanese officials believe China is too large to ignore or isolate. Both publicly and privately they argued against Western sanctions imposed after the Tiananmen incident. They felt that sanctions were likely to strengthen Chinese hard-liners and heighten a nationalistic reaction, thereby slowing, if not thwarting, necessary reforms. Political instability and economic stagnation on the mainland will jeopardize a peaceful and prosperous Asia-Pacific region. Given the magnitude of China's economic problems, large loans and generous aid are seen as necessary to modernization, which in turn serves Japan's interests.

So far, the least developed leg of the economic tripod is Japanese investment. The official rationale for loans and aid does not apply to private capital, which is primarily responsive to profit and risk, although it is not wholly insensitive to government policy. Japanese business encounters many of the same obstacles that dissuade other foreign investors from underwriting large long-term productive enterprises, encourage them instead to channel capital to short-term service

industries, such as hotels and restaurants, and to electronic assembly plants. China lacks a stable currency, guaranteed access to foreign exchange to purchase equipment and spare parts abroad, and managerial control over the hiring and firing of workers. Under these circumstances most Japanese entrepreneurs prefer more promising places in East Asia for large-scale ventures.

This does not negate Japan as a source of capital, as evidenced by the agreement on an investment of \$3 billion for 1169 enterprises in China during the first nine months of 1990, of which \$2.17 billion was firmly committed.¹³¹ It was over the same period in 1989, suggesting both the negative impact of the June events and the positive improvement in the investment environment resulting from new legislation. Moreover, the double-digit growth of the special economic zones and the 14 cities with special privileges for joint ventures should assist a continuing expansion in this area.

During the last decade, Chinese officials ritualistically berated their Japanese counterparts for the low level and the type of investment, arguing that it should equal the level of trade and be long-term in anticipation of China's potential market. Eventually, this line faded as Tokyo's inability to direct private investment sank in and Chinese officials faced up to the problems inhibiting all foreign investment, whether Japanese or other. Ultimately, the degree to which Japanese private capital is available for Chinese modernization will depend on the

¹³¹ *China Daily*, January 2, 1991.

stability of the Beijing regime, its economic reforms, and the relative returns compared with other countries.

One major complaint voiced against Japanese investment behavior has been over the constraints imposed on technology transfer. To the extent that such transfer has been blocked or impeded by Coordinating Committee for Export Controls restrictions aimed at Communist countries, this complaint should fade in time as restrictions disappear with detente between Washington and Moscow.

Summary & Conclusion

The Tiananmen Square incident marked a new period in Sino-Japanese relations. As a result of careful handling on their bilateral relationship, China and Japan overcame the sensitive years after the Tiananmen Square Incident. The question is what were the basic considerations for both governments in dealing with their bilateral relations during the crisis period, and why Tokyo took practical steps in improving its relation with Beijing when other industrialized countries froze their relations with China. Someone might argue that the special relationship between China and Japan based on the long term friendship contributed to such a consequence. But the realities of this period proved that all of these were not due to the historical friendship and special feeling between the two countries. It came from a very practical calculation on their own interests under the framework of the global system.

Beijing's main concern after the Tiananmen Square Incident was how to stabilize its domestic situation as soon as possible. To improve its economic situation became the most important task for the Chinese government. Beijing's new leadership emphasized that China would continue to pursue modernization and economic liberalization. They looked upon Japan as the main foreign resource in providing economic assistance. This was because Japan was China's chief trading partner and a major foreign investor in the world, and the only industrialized country that did not impose political preconditions on its economic

assistance, such as asking the Chinese government to improve its “human rights” policy.

After the Tiananmen Square Incident, Chinese leaders discovered that Japan was not only a major foreign resource for China’s economic development, but also a unique intermediary between China and the West. Japanese leaders worked hard to put their views across to the leaders of other industrialized countries to lift sanctions toward China. In return, the Chinese government responded carefully and delicately when the Japanese government considered sending Self Defence Force personnel to the Gulf Crisis, and when a strong protest movement occurred in Taiwan and Hong Kong in late 1990 in response to the Diaoyu Islands issue.

Japanese leaders clearly understood that the stability of China was more important than “democracy”. If the political situation and economic order of China get out of control, it will endanger Japan’s political and economic interests in the Asia Pacific region. Since the increasing trade conflicts with the United States and West European countries, Japan has shifted more and more of its economic weight toward Asian countries. The volume of trade between Japan and the Aisan New Industrialized Countries was \$77.9 billion in 1989. As the largest country in Asia, China has a huge influence on the region. Political isolation and economic sanctions might cause extreme reactions from China and change the power distribution in the area. It would certainly affect regional stability and harm the interests of Japan. Economic assistance will help the Chinese government extricate itself from its

economic predicament which might be critical to the political stability of China.

For Japan, it is a good opportunity to get a large share of the Chinese market at a time when its western competitors opponents were imposing economic sanctions on China. Even though China is not the number one trading partner of Japan in the world, it is the most important potential market in the world. The bilateral trade between China and Japan recovered rapidly from \$16.8 billion in 1990 to \$ 25 billion in 1992. Japanese direct investment also has increased steadily since 1986.

CHAPTER V

Conclusions

In the preceding chapters, I have provided an analysis of Sino-Japanese relations from 1972 to 1992. The facts presented in these chapters prove that the changes in the international and regional systems, Chinese domestic politics, and the past history of relations between the two countries are major factors in the evolution of Sino-Japanese relations.

According to the globalist theory, the starting point of analysis for international relations is the global context within which states and other entities interact. Globalists emphasize the overall structure of the international system or, more colloquially, “the big picture.” To explain behavior, one must first grasp the essence of the global environment within which such behavior takes place.¹³² Sino-Japanese relations should be, as one Japanese senior “China hand” put it, “considered within the frame of international politics and economy.”¹³³

The Sino-Japanese rapprochement came about because of Beijing’s serious concern about the increasing threat from the Soviet Union. By the end of the 1970s, Beijing’s view of the world was that Soviet hegemony constituted the most dangerous threat to China and world peace. China turned toward the West, and sought a united front primarily with the United States, Japan and Western Europe as well as with the third world countries against Soviet hegemony. Both strategic

¹³² Paul R. Viotti, Mark V. Kauppi, *International Relations Theory*, Macmillan Publishing Company, 1993, p.449.

¹³³ Ogawa, Heishiro, Seeking a Stable Development of Sino-Japanese Relations, *Perspectives of Sino-Japanese Relation*, China International Broadcasting Press, 1990.

and economic interests contributed to the honeymoon between China and Japan. The Sino-Japanese Treaty of Peace and Friendship and the Long Term Trade Agreement were concluded during this period. China downplayed ideology and the idea of world revolution while emphasizing its own security and national interests. China shifted its emphasis from supporting people's wars of national liberation in the developing states to establishing diplomatic relations with existing regimes. Beijing aligned itself with Tokyo so as to improve its position in the international and regional system.

In the 1980s, in order to accomplish economic modernization as well as to maintain national security and internal order, Chinese leaders began to recognize the fundamental prerequisite of establishing a relatively stable strategic environment, especially around China's periphery. The alternative would be a highly disruptive situation requiring infinitely greater Chinese expenditures on national defense and posing a greater danger to domestic order, economic growth and social tranquillity. Thus, China's top foreign policy priority has remained the pragmatic quest for a stable environment needed for effective modernization and development. Within this overall strategy, Chinese leaders have employed a varying mixture of tactics to secure their interests, depending on international variables, such as the perceived strength and intentions of the superpowers, and Chinese domestic variables, such as leadership cohesion or disarray.

Following the decreased threat from the North, Beijing started to review its position on the international arena in 1982. In this case, Chinese leaders rendered a judgment that their strategic surroundings would be, at least temporarily, stable, and they saw less immediate need for close ties with the United States. The relaxed relationship between

China and the Soviet Union created more tension in Sino-American relations. China proclaimed an independent foreign policy of non alignment with any superpower, and readjusted its policy towards Japan. The conflict over Japanese high school history textbooks reflected such a readjustment.

But when the Chinese leaders found out that such tactics could seriously alienate the United States and thereby endanger the stability of China's environment, they deferred to the interest of preserving peaceful surroundings. Because the relations with the West were very important for maintaining China's security and development interests, Beijing began revising its foreign policy again and sought to improve relations with the United States and Japan. Sino-Japanese relations underwent a calm period, the Hu and Nakasone period. The Sino-Japanese Friendship Committee for the 21st Century was established in such an environment. Three thousand Japanese youths were invited to Beijing to demonstrate the goodwill between China and Japan.

After the Soviet leadership under Gorbachev took practical steps to improve its relationship with China, Beijing felt more comfortable with its security environment and started to modify its foreign policy so as to meet the changes in the Asia-Pacific region. The improvement in Sino-Soviet relations caused tension between China and Japan. The reduced threat from the Soviet Union changed the regional power distribution. China and Japan used to be de facto allies under the military pressure of Soviet Union, but confrontations might emerge when the pressure disappears. Beijing kept its eyes on Japan's increasing defense budget and expanding military capacity, because Japan would be the most important regional power China had to worry about. Sino-Japanese

relations experienced the “Stormy Years” since the transformation in the international system and the adjustment of Chinese foreign policy.

When the industrialized countries applied sanctions against Beijing government after the Tiananmen Square Incident in 1989, the major concern of China’s foreign policy was to overcome the international isolation and to rebuild China’s image in the world. Japan responded carefully in dealing with this sensitive situation, and made great efforts to help China to improve its relations with the West. Beijing appreciated Japan for resuming loans to China, and “playing a positive role in loosening the sanction on China imposed by the Western countries.”¹³⁴ Sino-Japanese relations experienced a smooth and rapid development after 1989.

Although the structure of the international system conditions and predisposes certain actors to act in certain ways,¹³⁵ domestic factors such as the level of economic development, the success of economic programs, the emergence of new leaders, and the attitudes of the populace toward the outside world also influence a nation's foreign policy. Since the death of Mao Zedong in 1976, China has experienced great political changes. The first major change in Chinese domestic politics was that economic modernization became the country’s top priority. Development issues were prominent in the inter-elite struggles.

After the radical “Gang of Four” was put in jail, Hua Guofeng, Mao's successor, launched an ambitious “Ten Year Development Plan.” Sino-

¹³⁴ Editorial Dept. of the PRC Yearbook, *PRC Yearbook 1990/1991*, NCN Limited, H.K. 1990, p.282.

¹³⁵ Paul R. Viotti, Mark V. Kauppi, *International Relations Theory*, Macmillan Publishing Company, 1993, p.449.

Japanese trade increased rapidly. China signed a larger number of contracts with Japan to purchase plants and equipment. The Ten Year Development Plan triggered serious financial problems which worsened China's economic situation. China canceled most of the plant and equipment purchasing contracts signed with Japan during this period, started economic readjustment, and removed Hua from the leadership due to his mistake.¹³⁶ The contracts cancellation caused the first crisis between China and Japan since 1972, which marked the end of the honeymoon of Sino-Japanese relations.

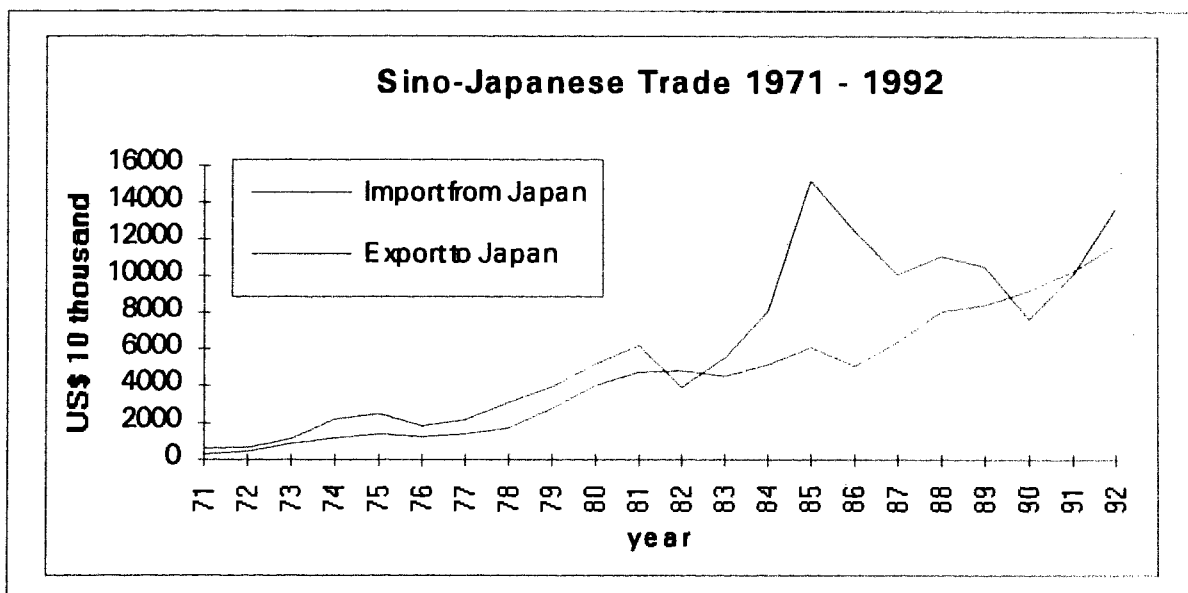
After Deng Xiaoping stabilized his position in the Chinese leadership, China became a somewhat more liberalized and more institutionalized regime, oriented toward a form of market socialism, with elements of guided capitalism. Technocratic modernization began to be promoted with emphasis on export-led growth, aimed at the markets of the industrialized countries. Although foreign direct investment was welcomed, the emphasis was on absorbing foreign science, technology and management methods. These changes were made by Deng Xiaoping and his principal associates, Hu Yaobang, then Chairman of the Chinese Communist Party (CCP), and Zhao Ziyang, then Premier of the State Council. This group gained control after a protracted contest for power in which its main rivals were prominent individuals identified with Mao's policies, which emphasized revolutionary values as the basis for modernization.

In this climate of economic and political reform, China's imports from Japan increased sharply. But after a short period, the Chinese economy overheated once again. Conservatives seized this opportunity to

¹³⁶ Four members of the Politburo of the CCP who closed to Hua were removed from their posts in February 1980.

move against Deng's reforms. Hu lost his position due to his political mistakes and a deteriorating economic situation. Sino-Japanese trade experienced a sharp decline. Zhao replaced Hu but disappeared from China's political stage after the Tiananmen Square Incident. China readjusted its economy under the direction of Premier Li Peng. The unstable political situation resulted in a continuing six year decrease in China's imports from Japan.

The chart¹³⁷ of Sino-Japanese trade from 1971 to 1992 looks like a record of the Chinese political climate and economic situation. Hua Guofeng arrested the radical "Gang of Four" in 1976 and became the



successor of Mao Zedong, and resigned in 1982. Hu Yaobang stepped down from his position in 1987, and Zhao Ziyang was replaced by Jian Zemin in 1989. The chart indicates that Sino-Japanese trade increased constantly when China experienced a stable political and economic conditions. The power transformation within the leadership, which was always accompanied by economic problems, resulted in a sharp decrease in China's imports from Japan.

¹³⁷The data of this chart is from *Direction of Trade Statistics Yearbook*, published by International Monetary Fund, 1972-1992.

Chinese Foreign Minister Qian Qichen once pronounced that “foreign policy is the extension of China's domestic policies.” China's external order was so closely related to its internal order that one could not survive without the other.¹³⁸ The internal and external linkages and interdependencies have widened and deepened in China since Deng started his reform policies. Beijing's expanding involvement in the global system in recent years, coupled with the ongoing revolution in communications and transportation, has unleashed external forces and pressures to such an extent that both domestic and external variables and policies are now interwoven in terms of cause and effect, constituting mutually interdependent parts for any satisfactory explanation of today's Chinese foreign policy.

The second important change in the Chinese domestic situation is the decision-making pattern within the Chinese leadership. As a communist regime, the political system of China was a “closed” (authoritarian) system. The objectives of Chinese foreign policy have been determined by a small group of top level leaders who have reflected the broad interests of the Chinese state as well as their own parochial concerns. In the past, Mao Zedong and Zhou Enlai exerted overriding control over foreign policy. The primary concerns of these leaders were to guarantee Chinese national security, maintain internal order, and pursue economic development.

Since the death of Mao in 1976, there has been an increase in the number of officials involved in Chinese foreign policy though key decisions remained the preserve of a small group of leaders, especially

¹³⁸Bih-jaw Lin, *The Aftermath of the 1989 Tiananmen Crisis in Mainland China*, Westview Press, 1992, p. 393.

Deng Xiaoping. But the individual or personal power in the decision making process is declining. In the Mao Zedong era, Premier Zhou Enlai was in charge of foreign affairs for more than twenty years. He could make decision on critical issues without consulting other Chinese leaders except Mao. In the Deng Xiaoping era, even though Deng was the most powerful decision maker in the Chinese leadership, he could not neglect opposing opinions from other senior leaders. Collective leadership and party discipline were emphasized among high ranking Chinese officials. Hu Yaobang made the mistake of getting too friendly with Japan. He was subsequently removed from office.

Some scholars and politicians, especially the older generation, believed that extensive personal contacts between high ranking politicians and business people of the two countries would ensure a friendly and smooth relationship between China and Japan. This approach had its roots in the policy pursued during the period before the two countries normalized their diplomatic relation. Chinese policy at that time was based on a campaign of "people's diplomacy." Under the leadership of Primer Zhou Enlai, a group of Chinese officials, most of them with experience of studying or living in Japan, was mobilized to become involved in Sino-Japanese affairs. They established wide connections with the Japanese from different groups. First hand information collected by this group could reach Zhou directly, and they also received direct instructions from Zhou. Personally, Zhou established very close friendship with many Japanese politicians and businessmen.

It is true that the friendship and understanding between high ranking politicians is important in a bilateral relation. However, when those politicians are removed from their positions in dealing with Sino-

Japanese relations, the influence of such a friendship will decline. Mr. Liao Chengzhi used to be a powerful man in Sino-Japanese relations during Zhou Enlai's era, but his influence declined in Deng Xiaoping's era when he was moved to the position in charge of Taiwan and Hong Kong affairs. Clearly, China's foreign policy no longer tolerated the influence of personal style nor any single leader's inclination. The move towards collective decision-making also means a step towards institutionalized decision-making. Sino-Japanese relations, therefore, no longer received "special consideration" that differentiated them from other bilateral relations.

The third factor which influenced Sino-Japanese relations was the past history of relations between the two countries. This history has both positive and negative aspects, which have had an influence on contemporary Sino-Japanese relations. In the period before China and Japan normalized their diplomatic relations, the traditional friendship had a significant influence on their bilateral relations. However, when official economic relation replaced non-governmental trade and official diplomacy replaced "people diplomacy," the importance of the traditional friendship was reduced.

The Japanese invasion of 1937-1945 surpassed any foreign aggression in modern Chinese history. The full cost can never be accurately assessed. This history is viewed quite differently in the two countries. As a senior Japanese official frankly acknowledged, "We want to forget, they want to remember. Unfortunately, we must say that Japan is a country with a long history and a short memory."¹³⁹ But the Chinese emphasize that "past experience, if not forgotten, is a guide for

¹³⁹ Allen S. Whiting, *China Eyes Japan*, University of California Press, Berkeley, Los Angeles, 1989, p. 4.

future.” The conflict between these two attitudes poses the greatest obstacle to the stable, close, and enduring relationship based on trust and friendship that is officially advocated by Beijing.

The bitter memory of the war is rooted in the minds of ordinary Chinese. A young Chinese scholar declared, “young people hate the Japanese. They cannot forget the war and the brutal behavior to so many for so long. What Japan has done in the past will be remembered forever. If the Japanese government won’t admit it, Chinese feelings will be greatly harmed.”¹⁴⁰ These powerful feelings triggered widespread student demonstrations in 1985 and 1986. But it was also the way that students expressed their dissatisfaction to the government in the name of patriotism. The Chinese government, however, could employ the public attitude of ordinary Chinese toward the past history to put pressure on the Japanese government in dealing with specific bilateral problems.

After two decades of development, Sino-Japanese relation became one of the most important bilateral relation in the world. This relation has been bound by political and economic interests, but not historical relation nor cultural affinity. The political interest, security consideration and economic interdependence formed the new foundation of bilateral relations between these two countries. According to previous analysis, Sino-Japanese relations should be viewed in a larger international context. As Chinese policies toward the United States and the Soviet Union changed, Chinese policies toward Japan would also change. In the 1970s and 1980s, Sino-Japanese relations seemed to be under the shadow of US-USSR confrontation. When the confrontation disappeared in the 1990s, China and Japan became more independent powers in the Asia-Pacific region. The disintegration of the Soviet Union

¹⁴⁰ Ibid., pp.77-78.

marked the end of the bipolar system and the beginning of a system transformation towards a multipolarity system. According to Beijing's view, the old world equilibrium has been disrupted and the process of re-division and re-alignment has begun.¹⁴¹

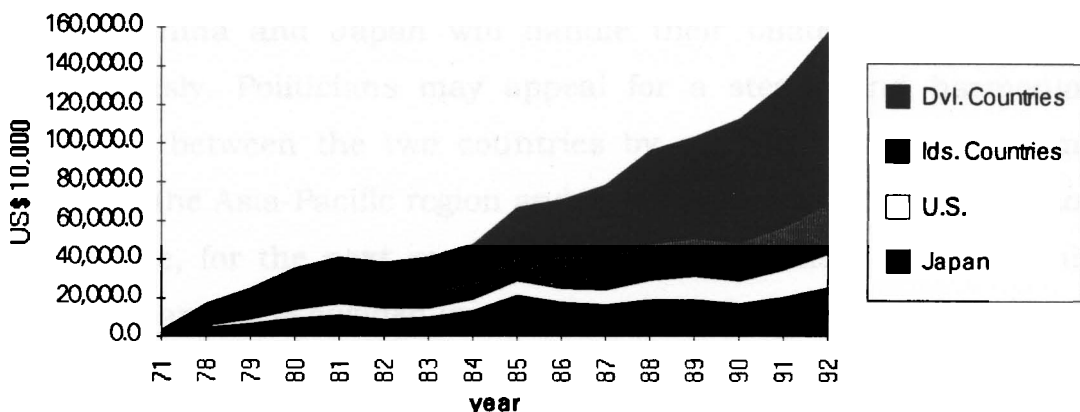
The relationship between Washington, Moscow, Beijing, and Tokyo will form the basis upon which China and Japan build their regional relationship in the coming years. For the purpose of becoming a real power in the Asia-Pacific region and the world, China and Japan have appeared to pursue higher profile foreign policies so as to establish their credibility and make their power base when the bipolar world gave the way to the multipolar system. There is no significant strategic or military cooperation between China and Japan in the future. On the Chinese side, Chinese suspicions and criticisms of Japan's growing military capacity will increase commensurably with its continued growth. China will become increasingly sensitive to any tendency on the part of Japan to becoming a political and military power. China will be trying to extend its political influence in the Asia-Pacific region to counter balance Japan's economic power because Beijing cannot tolerate a Tokyo led Asia system.

China and Japan will not sacrifice their national interests for economic motives, even though China and Japan for now seem to have assigned priorities to their economic relations. Japan is likely to play a proportionally smaller part in economic modernization in the future. Chinese scholars warned that "the worst policy China could make would be carelessly to let strategic necessities, whether for defense or economic construction, be controlled by Japanese business."¹⁴² Changes are

¹⁴¹ Jiang Zemin, International Situation and Sino-Japanese Relations, *People's Daily*, April 8, 1992.

beginning to take place as China begins to diversify its markets and reduce its dependency on Japan. China has been balancing its foreign trade structure steadily to reduce its reliance on Japan. While becoming active in international organizations, including the United Nations, the World Bank, and the International Monetary Fund, China has rapidly expanded its economic ties with other parts of the world, especially in the Middle East and Southeast Asia. The chart¹⁴³ of “China’s foreign trade” indicates that Japan’s share in China’s foreign trade has decreased constantly since 1985. Inevitably, this will introduce new element of instability into Sino-Japanese relations.

China Foreign Trade 1971 - 1992



Another factor that will have a significant influence on Sino-Japanese relations is the domestic situation of China. Economic issues and political problems always interact in China’s development. A deteriorating economic situation may cause policy disputes among top Chinese leaders and result in power transformation within the leadership. New leaders will readjust their policy to correct the economic

¹⁴²Shijie Jingji Daobao (World Economic Time) June 15, 1987.

¹⁴³The data of this chart is from *Direction of Trade Statistics Yearbook*, published by International Monetary Fund, 1972-1992.

difficulties. The previous analysis demonstrated that Sino-Japanese relations developed rapidly and smoothly when China's political and economic situations were in a stable and healthy condition. The economic problem and political instability of China resulted in serious controversies between China and Japan. Deng's reform increased the level of interdependence between China and the world. Any economic policy adjustment applied by the Chinese government will have direct influence upon China's economic relation with other countries. As China's major trading partner and investor, Japan's economic interests in China will be strongly effected by China's economic and political situation.

Both China and Japan will handle their bilateral relations very conscientiously. Politicians may appeal for a steady and harmonious relationship between the two countries by emphasizing their common interests in the Asia-Pacific region and shelving disputes, like the Diaoyu Islands issue, for the next generation. But the conflict between China and Japan cannot be avoided in the future. The tension between the two countries may increase following the growth of China's national power. Both of them will move unhesitatingly to pursue their interests in the region in the future. In a sense, it is a "normal" bilateral relation between two independent and equal nation states.

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