

# Japan and China Tensions and Washington's Asia Geopolitics

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Coinciding with the re-election of George Bush we have seen a significant and strategic shift in US China policy. The shift involves a major upgrade of the US military security relationship with Japan. It portends major consequences for the dollar and world economic growth. Not surprisingly, the shift coincides with the near frantic efforts by China to secure energy security, particularly in oil and natural gas, through major deals with Iran, Russia, Canada and Venezuela, sometimes referred to as the BRIC alliance group of states.

The March visit to Tokyo, Seoul and Beijing by Secretary of State Condoleezza Rice, underscored the new Administration policy of trying to set Japan into motion against the growing economic and political clout of China in the region. The consequences of a new and deepening strategic opposition between China and Japan for world economic and financial health are potentially considerable.

In Tokyo March 21 Rice declared that Japan would be the 'umbrella' for US policy (read Trojan Horse) in Asia, since both Tokyo and Washington "have already chosen a common set of values and understandings" (sic). She went on to cite the "rise of China as a new factor in global politics." True enough, but the tone was markedly negative in comparison to US China policy since September 2001. "The internal evolution of China is still undefined" Rice added, naming "issues of freedom of religion, human rights...Taiwan" as "matters of concern that could take a wrong turn." She stated, provocatively, "we want to prod, push and persuade China..." The fact that she chose Tokyo to deliver the remarks was no doubt understood clearly enough in Beijing. Washington has put China squarely and openly on its radar screen for potential "regime change" and other fine things.

During her Asia tour Rice repeatedly stressed that Washington would back Japan in the region and supported the Japanese desire for permanent UN Security Council veto status. In Tokyo she called on Japan and other countries in the region to unite and demand that China "eventually embrace democracy." She openly opposed the recent effort of the European Union to lift the 1989 arms embargo on China as well, and warned of a new Chinese threat against Taiwan.

Not surprising, Washington is moving in a classic balance of power style to set Japan, the weaker of two rivals, in motion, in order to counter the growing influence of China, the larger rival, in the enormously important Pacific region. Last December, under US "encouragement" the Koizumi government issued its 10-year defense program which for the first time openly named China as a potential threat. Two months after, in February, Japan explicitly agreed with Washington that the Taiwan Strait was a "common strategic concern" of Washington and Tokyo.

This is the first time Japan has involved itself so directly in the postwar period in the Taiwan issue, and was, not surprisingly, viewed in Beijing as a brazen interference in China's internal affairs. To add oil to the fire, on February 9 Tokyo announced the Japanese Coast Guard would officially take control of the disputed Senkaku Islands (Diaoyu in Chinese). As well Japan was the only major nation outside the USA to oppose the EU plans to end the China arms embargo.

Washington has repeatedly urged Japan to rearm and increase its military profile, as well as promising Taiwan that should China use force to prevent a Taiwan declaration of independence, the US would go to war on its behalf. Little wonder that anti-American sentiment in the region is rising.

Pentagon hawks refer to Japan as the "Britain of the Far East," a reference to the wartime and current US-UK historic "special relationship" in military and other strategic affairs. They see Japan, like Britain, as a geopolitical "island power." Their idea is evidently to use Japan as a proxy against North Korea and China. The US nurturing of Japanese military ambitions intersects Japanese rising nationalism and fear of Chinese domination economically. This is a volatile combination in every respect.

In addition to changing the Japanese Constitution recently to allow "out-of-area" military missions, i.e. not Japan defense related, Tokyo is also in advanced talks with the Pentagon on building enhanced US command and control base facilities in Japan and cooperation on missile defense as well as force deployment. Washington wants to relocate its Army 1st Corps from Washington State to near Tokyo, under command of a 4-star General. According to the Asia Pacific Center for Security Studies' Carl Baker, "The US is moving to restructure its alliance with Japan, to make it an enhanced maritime alliance. What had been implicit is now more explicit."

Washington is also reportedly eager to get Japanese help in its floundering anti-missile defense project and especially, Japanese money. Some even speculate with growing Japanese military assertiveness, Japan could rapidly join the nuclear club as it has all relevant technology at hand. It only lacks a nuclear capable submarine fleet.

The Koizumi cabinet at present contains no single member deemed 'pro-China,' remarkable given the enormous economic importance of the China relationship. Koizumi has been wooed by Bush including a trip to the Holy of Holies, the Crawford Ranch. He has sent troops to Iraq, and personally endorsed Bush's reelection. His cabinet members are markedly pro-Taiwan and anti-Beijing according to Asia expert, Chalmers Johnson.

This is the background in which China passed its new Anti-Secession law on March 14. It was a clumsy Chinese response to an escalation of pin-prick provocations, carried out by Tokyo but quietly backed by Washington. That Beijing move played well into Washington hands as it made the position of France and Germany suddenly untenable vis-à-vis embargo lifting, and escalated regional tensions significantly, polarizing the relations between South Korea and China on the one and Japan on the other side. This is a major blow to quiet systematic efforts of those countries to build regional trade and economic co-operation.

Korea also a Tokyo/Washington target

There are other provocations including a Japanese school textbook whitewashing Japanese war crimes in the Korean and Chinese theatres. This year is nominally Korea-Japan Friendship Year.

In terms of South Korea, Japan created deliberate tensions when the Japanese Ambassador to Seoul, Takano Toshiyuki, declared that Japan asserted sovereignty over the disputed Takeshima islands, stirring old anti-Japan sentiment in Korea.

Washington is playing a less-than-honest broker role in the North Korea nuclear dispute as well.

The entire region from Korea to Taiwan is part of one strategic complex which threatens to go badly and quickly awry to the detriment of the world economic and finance flows. In response to the new Japan-USA front against China on Taiwan, China has reacted with coolness on trying to mediate a Korean solution. To the US-Japan "Taiwan Card" game, China is apparently playing at the moment its "Korea Card" game. China controls most North Korea trade and has decisive influence there. The London *Financial Times* recently noted that Beijing was "fearful of a unified Korea friendly to the US" and was content to keep the Korean status quo and draw out the nuclear talks. This is a distinct new tack for China which has been more than cooperative in efforts to settle the Korean dispute since September 11 2001.

Rice also gave clear low priority to South Korea during her visit and refused comment on the Korean protest over the Dokdo islands dispute with Japan, a move seen as a humiliation in Seoul. The issue is not at all minor in Korea. On March 23 President Roh Moo-Hyun urged his countrymen to prepare for "diplomatic war" with Japan over the islands, accusing Japan of failing to amend past wrongs against Koreans. He also attacked Koizumi for repeated visits to the Yasukuni Shrine for Japanese war dead, where General Tojo and other high-level war commanders are also buried.

Significantly, Roh declared, "There could be a hard diplomatic war...that may reduce exchanges (i.e. trade) in various sectors and cause economic difficulty." Fasten your seatbelts, hedge fund traders, this could be a rocky ride ahead for the dollar if they follow through this time with action not just rhetoric as the Korean Central Bank did a month ago, when they hinted at plans to shift from dollar to Euro and other reserves, only to "correct" the statement the next day.

Prior to September 11, Bush Administration Pentagon strategists were pushing to make China and the Korean issue its prime strategic threat focus. The post-9.11 obsession with toppling Saddam Hussein led to a shift in Washington priorities until recently. Now, by quietly encouraging Koizumi with its stick-carrot diplomacy, Washington is lighting fires which have lain dormant for decades. Chinese recall well that during the war, Japan was responsible for more than 23 million Chinese fatalities.

According to Japan specialist Chalmers Johnson, LDP member Shinzo Abe is a likely front-runner to become successor to Koizumi later this year. Abe, grandson of the former Prime Minister, has profiled himself as a hawk on the threat posed to Japan's security by North Korea. His political career according to Johnson is as a Korea-basher, fanning Japanese security fears. Other Koizumi cabinet members including Defense Agency chief Yoshinori Ono and Foreign Minister Nobutaka Machimura, are open militarists. One quid-pro-quo demanded by Washington for US support of Japan's UN Security Council bid is that Japan

change its “Pacifist Constitution” and permit military deployments outside Japan. The message is not lost on China and South Korea.

Significantly, prior to the recent Japanese provocations, Beijing under President Hu Jintao had made clear moves to moderate relations with its important Japanese trade partner. It named a Chinese moderate as Ambassador to Tokyo and gave red carpet treatment to the September 2004 visit of the Japan Diet House of Representatives. Very significantly, Hu also proposed joint Sino-Japan exploration for oil in the disputed offshore region between the two. There is no economic security issue more important in Beijing than oil.

At the recent ASEAN Summit, Hu personally requested Koizumi end his visits to the war shrine in the interest of the growing friendship with China. Koizumi, no novice politician, replied with an insult to Hu, stating it was time China ‘graduated’ from status of being a recipient of Japanese development aid. The loss of face intended by Koizumi was clear, as Japan, the wartime occupier posed arrogantly as the ‘teacher’ of China today in economics.

China Premier Wen replied angrily in his speech at ASEAN that China always regarded the Japan aid payments as compensation in lieu of payment for war damages.

After last year’s May elections Chen Shui-bian was narrowly reelected and he named as Ambassador to Tokyo (informal) Koh Se-kai who lived in Japan for 33 years and is well-connected to Tokyo power circles. The Taiwan Parliament acted to bloc the attempt of Chen in August to amend the constitution to favor independence. In December Chen again lost a major bid to elect a Parliament majority and his proposed \$20 billion US arms purchase apparently went down with his election loss.

Significantly, relations between Taiwan and China would likely resolve peacefully were there no outside interference. According to Johnson, Taiwan has invested \$150 billion into China’s economy and under Chen Taiwan has opened trade and transport across the Taiwan Strait to China. China is in no position to make a military confrontation with either Japan or Washington, and Washington well knows that. In its December Defense White paper, Beijing stated, “so long as the Taiwan authorities accept the One-China principle and stop their separatist activities aimed at ‘Taiwan Independence’ cross-straits talks can be held at any time on officially ending the state of hostility...”

In 2004 the EU replaced Japan and the USA as China’s largest trade partner, a factor behind the EU push to lift China sanctions on arms. That trend opens up a very real prospect of an Eurasian counterweight to the overwhelming ‘800-pound gorilla’ in Washington. China’s trade with the EU in 2004 was worth 177 billion dollars, while US trade was worth 170 billion and Japan trade worth 168 billion dollars.

In the longer-term Japan faces a daunting demographic challenge. According to former World bank China Department head, S.J. Burki, by 2025 China will likely be the world’s largest economy. Japan at the same time is pre-programmed to decline dramatically with drastic population shrinkage after 2010, that is in five years. Japan’s male population in 2004 already declined by a small percent. At the same time, Burki notes China will likely demographically stabilize around 1.4 billion people and is heavily weighted, owing too their population policy, to males. Compared to Japan and the USA, China is relatively debt free and its external debt is small and covered by trade surpluses.

The background for the shift in Washington China policy is not hard to find. The recent China

energy diplomacy with India, Russia and Brazil and Iran, as well as other strategic moves to secure some form of economic security after the Iraq war, has not gone unnoticed in Washington. The response to date, as noted earlier, is classic balance-of-power manipulation to set Japan against China and Korea, playing on Japanese fears of an emerging China superpower.

The risk for Japan is not small. In the past decade, especially the past 5-6 years Japanese industry has massively invested in outsourcing to China for its manufacture. Between 2001 and 2004 Japanese exports to China rose 70%. At the same time China dependence on Japan has diminished. During the 1990's Japan was China's most important trade partner. By 2004 the EU had replaced them followed by USA and then Japan as third. Over the past several years, ASEAN trade and investment has markedly shifted from the US to China as main focus.

The risk for the United States, and the hawkish Bush II Administration, with neo-conservatives or hawks in most key policy posts from the State Department to the UN Ambassador John Bolton, and now Paul Wolfowitz at the World Bank, is also not minor. Bolton, formerly dealing with Asia, and North Korea from the State Department, is openly pro-Taiwan independence and was previously a paid consultant to the Taiwan government, hardly neutral credentials.

China holds one weapon it could conceivably use if pressure from Washington and Tokyo increases as it clearly seems set to. The Bank of China holds some 610 billion dollars in US Treasury debt. Japan holds more, some 840 billions, but the size of China's holding is still strategic. At present, with the dollar dependent on huge daily inflows of foreign investment to avoid crash, were China, the world's second largest dollar holder after Japan, to decide to even temporarily boycott dollar purchases, let alone to begin selling holdings of same, it would force Japan to again turn on the inflationary printing presses as it did in March 2004. Or there would be danger of dollar free-fall. Yet Japan is ill-equipped to repeat the Herculean dollar rescue of March 2004. The recent comments by the South Korean government about shifting from dollar to Euro assets, even though 'retracted' the next day, suggest that Korea and China could be brought to such drastic measures or threat of same if the pressure rises.

Notably in this light, there are indications that trade between Japan and China has already begun to suffer. In February, Japan's trade surplus with China shrank year-on-year for the second month in a row. It fell 22% to ten billion dollars, three times worse than forecast in Japan. More than one third all Japanese exports today go to China according to OECD data. Japanese economic growth is not looking robust and talk of entering yet another recession is growing.

For now these tensions remain as background factors, but the trends have become clear enough to warrant growing concern in the region. Any escalation on any front could have devastating consequences for world economic growth and even for world peace.

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