

My name is Masaharu Nakagawa and I am a member of Japan's House of Representatives. I would first like to express my gratitude for having been invited to participate in this meaningful forum. China is like a giant dragon that has awoken from its slumber and is strengthening its presence in East Asia. This forum is a very valuable opportunity for me to discuss with the distinguished panelists here today how Japan views these developments, and how it can constructively build relations with China moving forward. There is another important reason why I have decided to leave Japan while the Diet is in session—and at a time that is so critical to my party, the opposition party—and come to Berlin for this conference. As we work to resolve the situation in East Asia, I admire how Germany and France have overcome their historical challenges to cooperate in the construction of the EU. I am impressed by how they have focused not on drawing border demarcations but on diluting the dividing lines to build a union. Furthermore, I am impressed by how at the same time they have maintained respect for their respective ethnic and cultural identities while working to live in harmony. I hope to learn valuable lessons from everyone today about how this compares to Japan-China relations.

I have always believed that the source of the conflict between Japan and its neighbors—namely China and the Republic of Korea—has been the difference in how each country's citizens have mentally processed the Second World War. In Japan, people interpret the war as Japan having lost to the United States. That is why ever since the Cold War Japan has willingly followed the United States—by allowing U.S. military to station itself in Japan, and generally accepting the American standards of economics and finance as the global standard. At the same time, however, Japanese citizens have a different interpretation of countries that were invaded and made to suffer at the hands of Japan, such as China and the Republic of Korea. I do not see the Japanese honestly believing that they lost the war to these countries. The Chinese and South Koreans, however, have a clear understanding that they overthrew their invaders to victoriously triumph over Japan. In China, a point of particular importance is that the country's WWII victory over Japan is also the starting point of the Communist Party. I believe that the difference in how citizens mentally processed these events is a major factor behind the unnecessarily strong nationalistic sentiments among citizens in each country. For China and South Korea, Japan lost the war and must more humbly face up to history.

These countries seem to almost be looking for opportunities to point out when Japan fails to display sufficient repentance for its wrongdoings. In Japan, even if it willingly follows the United States, often strong resentment can arise if China or South Korea try to say the same thing. Japanese and Chinese politicians and leaders must remain constantly aware of these interpretive differences when conducting diplomacy.

In terms of economic relations, from Japan's perspective China has surpassed the United States to become our number-one trading partner. Total trade has now reached 145 billion dollar. For China, Japan is its second largest trading partner behind the United States. Moreover, direct investment from Japan has grown significantly in recent years to reach 7.3 billion dollar. Our mutually-beneficial economic relationship is steadily recovering despite strong anti-Japanese movements in China sparked by the Senkaku Islands territorial issue. Nevertheless, there are signs that the two countries are set to experience several turning points in the future. One sign is that Japanese corporate executives are paying more attention to intensifying anti-Japanese movements and the resulting risk associated with China. This is a consequence of distrust in the Japanese central and local governments' response to these movements. In addition, there are more frequent strikes, human resource costs at urban coastal areas are skyrocketing, and the yen continues to appreciate. The result is that many companies are relocating their factories to developing countries in Southeast Asia and other regions; namely labor-intensive industries like garment manufacturing. However, this transition only applies to relatively few companies. Most Japanese companies have high expectations for the Chinese market, which is expected to continue to develop and expand significantly. Leading examples include the automobile, commercial distribution, and retail industries. Investment is thus likely to continue to grow for the immediate future.

A mutually beneficial economic relationship is essential, as China has become crucial to the growth of Japanese companies. International security theory also suggests that a mutually beneficial economic relationship is also a stabilizing factor between two nations. However, in China, confidence boosted by national economic success is driving stronger nationalist sentiment among citizens and prompting the government and military to pursue hegemony. China's military budget increases by two digits each year. Moreover, China continues to make unilateral assertions related to marine resources,

ocean territory, and land territory while expanding its military strategy into the high seas. Japanese public opinion of China's recent hegemonic, expansionist policies can be divided into two major schools of thought. The first entails criticism of the Japanese government's weak diplomatic stance on China and calls for a stronger stance, as well as for militarily strengthening Japan's alliance with the United States and improving the response capacity of the Japan Self-Defense Force. In reality, developments in China have moved America to implement an Asia-oriented strategy, which campaigns a rebalance, or pivot, towards China. Efforts are also underway to enhance the interoperability of American and Japanese forces, and joint military exercises to this end are growing more dynamic. Moreover, in Japan there is also a concrete strategic shift toward China. One notable example is the revision of the Japan Defense Program Guidelines, which now call for increased mobility of the Japan Self-Defense Forces and bolstering defense of islands. When skirmishes arise over the Senkaku Islands, anti-Japanese movements in China intensify. Considering the potential impact of these movements on economic activities, there is increasing pressure on the government to suppress this opposition to a minimum and resolve the issues at hand. In particular, the economic sector carefully monitors the status of China and applies pressure to the government in both public and private forums. Whether the economic sector has been successful in this regard is up for debate. Nevertheless, it is safe to say that historically the Japanese Government has responded to developments in China while taking into account these two factors.

Japan has traditionally aimed to incorporate the economic dynamism of China into its domestic development agenda. However, Japan has only been semi-successful at this. Companies, for example, have been successful. The government and national citizens on the other hand have difficulty welcoming certain aspects of this integration. For Japanese companies China is a vital key player. Expanding operations into China—currently the most appealing choice for international corporate expansion—allows a company to be competitive at the international level. Indeed, Japanese companies have used China as a base for its production activities while expanding operations to the global level. However, this trend is viewed in a more problematic light by the Japanese Government, as well as in terms of developing Japanese small to medium-sized enterprises and domestic markets. For the Japanese

Government, a shift of Japanese factories to China accelerates the hollowing out of domestic industries and forfeits employment opportunities. This, in turn, particularly weakens rural economies. Moreover, the large influx of inexpensive products produced in China makes economic deflation a chronic problem, exacerbating working conditions by reducing wages and introducing temporary worker schemes. The environment has significantly changed compared to the era when China was only seen as a trading partner—a customer—of Japan. Today, Japanese domestic markets are forced to engage in price competition with Chinese companies while China sucks up the capital, technological, and labor markets. Moreover, most of the returns on investment are recirculated domestically in China, with only a fraction finding their way back to Japan. Japan faces a declining birth rate and aging society, and is entering a period of population decline with a shrinking future market. China, on the other hand, has great market growth potential, and if the returns are big, that capital will stay in China.

Looking at the political climate in Japan, there is growing conservative swing taking place not only in the ruling party led by Prime Minister Abe, but within the ranks of the opposition parties as well. Moreover, although still small in scale, exclusionary behavior targeting foreigners living in Japan are garnering more attention and growing increasingly militant. Behind this unhealthy social trend lies a distressed and concerned primary industry—comprising small to medium-sized enterprises, agriculture, and fisheries—that must rely on Japan’s shrinking domestic market. Those who oppose internationalization and support the conservative shift in Japan are those in the demographic receiving the direct negative effects of Chinese growth. Unfortunately, we have yet to figure out how to dovetail the advantages of international corporations with national interests and utilize them for improving the welfare and living standards of citizens in Japan.

Japan faces another political challenge when it comes to China. Dissatisfaction among Chinese citizens over widening economic disparity, corruption among public officials, and environmental pollution resulting from rapid industrialization and urbanization has led to pressure on the Chinese Communist Party to democratize the political system. More and more people are becoming aware of “China risk”, as it has come to be called. This refers to concern that the Chinese Government will use anti-Japanese sentiment as

a way to vent its frustration, neglecting to suppress the movements. There is also growing concern over the Chinese authorities' tolerance of looting and damage done to Japanese companies located in China. It is in nobody's interest that politics are pushed aside while intensifying right-wing sentiment in Japan combats with increasing anti-Japanese sentiment in China. Nevertheless, it is not necessarily the case that either country is on the right path to rectifying the situation either.

Chinese and Japanese officials, in their official capacities, might use the following rhetoric to describe this situation: "It is difficult for Japan and China to like one another. Nevertheless, they are immediate neighbors with an increasingly interdependent economic relationship. Thus, there are some shared ties that are too strong to break." However, this to me sounds like nothing more than a broken marriage—a wrecked relationship. Now is the time to take steps toward major reform in order to resolve these problems within the context of mutual trust. It is vital that each country clearly shape the challenges it aims to resolve. In Japan, this means recouping profits from international corporations, redistributing that capital within Japan, and taking measures to help citizens realize the true benefits of internationalization. In China, this means advancing democratization in order to mitigate social stress and promoting a law-abiding nation within the context of universal rules. I believe this to be the baseline for coexistence for both countries. In Europe, Germany and France have precedent for coexistence and mutual understanding using the EU framework. I am sure that we have many lessons we can learn from your experience.